FINANCIAL TIMES

World Business Newspaper

TUESDAY MAY 28 1996

Start the week with...

Israel's election
Peace effort has split the electorate
Page 21

Media futures
An audience with TCI's John Malone
Raymond Snoddy, Page 17

Sport: rugby
Life gets tough for the small boys
Page 18

Taipei lets currency slide in attempt to increase exports

Taiwan's currency yesterday dropped below a six-year support level with the New Taiwan dollar closing at T$27.641 to the US dollar against Saturday's T$27.486 finish. Taiwan's Central Bank of China had previously defended the six-year barrier of T$27.50. The fall signals a new willingness by the government to use foreign exchange policy to make exports more competitive. Page 22; Currencies, Page 33

Hyundai signals alliances with rivals: Hyundai Motor's new chairman Mong-Gyu Chung said South Korea's biggest carmaker needed to act less independently in order to strike alliances with other vehicle producers to develop new models. Page 23; Korea's German lesson, Page 22

US tops competitiveness league: The US and Singapore retained their lead as the world's most competitive countries while Germany and Switzerland, Europe's former stars, have been relegated to the second division, according to rankings compiled by the International Institute for Management Development. Page 5

Burma opposition's concern for activists:

Burmese opposition leader Aung San Suu Kyi (left) said she was worried about the fate of more than 250 activists arrested last week and claimed at least two had been charged by the country's military regime. She spoke after the second day of a controversial meeting of her National League for Democracy ended without incident. The army government had tried to scuttle the meeting by arresting 258 NLD politicians last week.

Mexicans prepare to contest new US law: Two Mexican companies with investments in Cuba are preparing their legal defence against new US legislation which will bar their senior executives and families from entering the US because of their links with Cuba. Page 6

Deutsche Telekom is to be given 49 per cent of voting shares in Kazakhtelecom, the Kazakh telecommunications monopoly, in a DM825m ($538m) deal which allows the central Asian state to repay debts and ensure investment in the telephone network. Page 22; Kazakhs to tighten up on tax under IMF deal, Page 3

Optimism over German economy: Germany's business community is showing signs of cautious optimism for the first time in more than a year. The institute for economic research bases its optimism on a rise in export orders and hopes of a long-awaited recovery in retailing. Page 2

Turmoil follows Albanian elections: Albania was thrown into political turmoil as the ruling right-wing Democratic party claimed victory in Sunday's election, while opposition parties called for protests against alleged electoral fraud. The opposition Socialist party said it would not recognise the result. Page 22

Ukraine's PM dismissed: Ukrainian president Leonid Kuchma sacked his prime minister Yevhen Marchuk, citing slow progress on economic reform. Page 2

Tokyo shares edge down: In Tokyo the Nikkei 225 average of leading companies' shares fell 98.67 points to 21,699.76 on profit taking and technical selling. Markets in in the US and most of Europe were closed for public holidays. World stocks, Page 35; 100 years of the Dow, Page 27

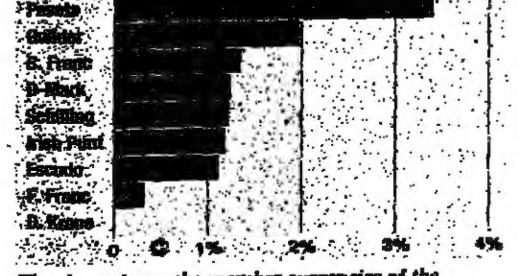
UK group seeks to raise $60m on Aim: Zoloto Mining of the UK is to raise about $60m (£40m) on the London Stock Exchange's Alternative Investment Market (Aim), to develop a gold mine in the Amur Region of far eastern Russia. Page 23

Honda boosts graduate recruitment: Japanese carmaker Honda plans to double its graduate intake this year, its first increase in four years and the latest indicator of the improved economic outlook for Japan's largest companies. Page 4

Cricket: England beat India by four wickets at Old Trafford, Manchester, to clinch a 2-0 victory in the Texaco Trophy series of one-day internationals.

European Monetary System: There was no change to the order of currencies in the EMS grid last week. The spread between strongest and weakest widened slightly. The narrow spread between the currencies is a function of the weak D-Mark and continued optimism about the Emu process. Currencies, Page 33; Lex, Page 22

EMS: Grid — May 24, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Rebel leader agrees to ceasefire ■ President's re-election hopes boosted

Yeltsin hails signing of Chechnya peace deal

By John Thornhill in Moscow

Russian president Boris Yeltsin yesterday hailed the signing of a "historic" peace deal which came after a Chechen resistance leader went to the Kremlin promising to halt 17 months of fighting in the separatist region.

"We have resolved the key problem of peace in Chechnya," Mr Yeltsin said after signing the deal to end the fighting in the territory in south-east Russia, where more than 30,000 people have died.

The agreement is a significant boost to the presidential re-election campaign of Mr Yeltsin, whose popularity has been undermined by the ongoing war.

In extraordinary scenes yesterday, Mr Zelimkhan Yandarbiyev, the Chechen leader, drove to the neighbouring region of Ingushetia in a heavily-armed convoy and boarded an aircraft for Moscow. Still dressed in battle fatigues, he went straight into a two-hour meeting with Mr Yeltsin in the Kremlin.

The agreement, which had already been substantially prepared by intermediaries, calls for a ceasefire from midnight on May 31 and an exchange of all prisoners within two weeks. Talks will continue to try to resolve the remaining political differences, in particular, the degree of autonomy granted to Chechnya.

Mr Yandarbiyev, a fierce nationalist who assumed the leadership of the Chechen resistance movement after Mr Dzhokhar Dudayev was killed in a Russian rocket attack last month, had previously vowed to continue the independence fight to the death.

But Chechen leaders appear to have realised they were in a good position to extract concessions from Mr Yeltsin before next month's presidential elections.

The Organisation for Security and Co-operation in Europe (OSCE), designed to resolve regional conflicts but fiercely criticised by the Chechens for an alleged lack of impartiality, appears to have played a significant role in brokering the deal.

The separatist Chechen leader Zelimkhan Yandarbiyev signs the peace deal in the Kremlin after two hours of talks with President Boris Yeltsin. Fighting in Chechnya will cease from midnight on May 31

The agreement falls well short of a comprehensive constitutional settlement of the conflict, which erupted in 1991 when Chechnya unilaterally declared its independence from the Russian Federation.

It was not clear last night whether all the Chechen resistance leaders would abide by the agreement. Mr Yandarbiyev does not carry as much political weight within the resistance movement as his predecessor, and several previous peace deals – albeit negotiated at a lower level – have collapsed.

Some extremist Chechen leaders, such as Mr Shamil Basayev, who led a bloody hostage-taking raid last year, have said they will settle for nothing less than full independence for the republic.

General Pavel Grachev, Russia's defence minister, has criticised attempts to reach a peaceful solution to the Chechen conflict and was conspicuously absent from the Kremlin yesterday. That has led to renewed speculation that he may be sacked and replaced by the highly-respected General Boris Gromov, who commanded the Russian withdrawal from Afghanistan.

Mr Yeltsin's efforts already seem to be reaping some rewards. Russia's Communist party, whose candidate, Mr Gennady Zyuganov, is Mr Yeltsin's leading rival for the presidency, welcomed the agreement as a "joyful event" but questioned why it had not been signed earlier.

Indian government set to be toppled today

Hindu nationalists likely to lose confidence vote

By Shiraz Sidhva in New Delhi

India's first Hindu nationalist government is almost certain to be toppled today in a confidence motion, only 14 days after it assumed office following inconclusive national elections.

The fall of the Bharatiya Janata Party-led government of Mr Atal Behari Vajpayee is expected to be followed by the creation of another unstable government by the United Front, a banding of secular groups supported by the Congress party and two communist groups.

Mr Vajpayee moved a motion of confidence in his ministers yesterday, launching a heated seven-hour debate which will conclude today.

No party succeeded in winning a majority in the elections last month, and the BJP has since been unable to gather enough support from other parties to ensure its survival.

The BJP and its allies won 194 of 545 seats in the lower house, making it the single-largest party. Congress, the former ruling party, won only 136 seats, its worst result ever, and has decided not to attempt to lead a government.

That has left the way open for Mr H.D Deve Gowda, chosen by the United Front as its leader two weeks ago, to become the next prime minister. Mr Gowda's coalition won a total of 180 seats, still well short of a majority.

Congress leaders have now said they will support the United Front "in the interests of secularism and the country's unity". But they warned yesterday they would topple a United Front government if it reversed the economic reforms started in 1991.

The United Front, a conglomerate of nearly 12 regional and national parties, represents the interests of some of India's lowest castes. Its nucleus is the Janata Dal, which won only 43 seats in the election.

Some of the coalition's leaders have actively campaigned against Mr Rao's economic liberalisation programme, and investors are worried about the future of reforms under a United Front government.

Mr Gowda said he has welcomed foreign investment, although he has not claimed to be an enthusiastic economic reformer. "I will not describe myself as an economic reformer, I am just a peasant," he said in a recent interview.

The BJP has attacked the United Front on the grounds that it is so fractious it will fall apart long before the end of its five-year term.

Front leaders who are determined to see the BJP government toppled today, said the Hindu nationalists had no right to form a government after securing only 23 per cent of the national vote.

"Millions of Indians see the BJP as a non-secular, exclusionary, illiberal party, and though no single party has the mandate from the people to form a government, the mandate is for a secular, liberal, democratic government," Mr P. Chidambaram, India's former Commerce minister, said yesterday.

Mr Vajpayee denied he sought to establish a theocratic state, but his opponents fear India's 120m Moslem minority would be under threat if the BJP continued in government.

Legal dispute threatens $2bn payment to BCCI creditors

By Jim Kelly in London

A legal dispute is threatening to disrupt the long-awaited payment of up to $2bn to more than 100,000 creditors of the failed Bank of Credit and Commerce International.

The row is over the rules under which the payment should be made to the creditors of the bank, which collapsed in 1991 with debts of $10bn following the world's biggest bank fraud.

The first payment to creditors, of 20 per cent of their losses, is expected this summer, with further payments up to an overall total of between 30 and 40 per cent to follow.

The principal liquidators, at accountants Deloitte & Touche, are trying to resolve the issue and are determined to pay the dividend on time. Earlier this month they received $1.55bn from the Abu Dhabi government, the bank's principal shareholder, as the basis for the overall settlement.

The dispute is between the liquidators and Luxembourg authorities, one of the three jurisdictions where the bank was registered. It is also where settlement contributions are "pooled" before payments to creditors.

Under UK law, loans and deposits can be set off against each other and creditors left to claim the difference. Under Luxembourg law such off-setting is not allowed – loans should be repaid before claims are made. The Luxembourg rules, viewed as time-consuming and costly, also threaten creditors unable to pay.

The liquidators hope the Luxembourg authorities can be pressed to follow the UK practice – which is known as "netting" – and which they claim is the international model.

It is understood that talks have started with the Luxembourg liquidators.

Meanwhile, Deloitte & Touche are likely to seek permission in the UK to set aside provisions to compensate creditors if Luxembourg law prevails – the sums involved would run into "several hundred million dollars" – according to one insider. Such provisions would decrease the size of the first dividend.

The dispute comes at a sensitive time for the liquidators. This week a Luxembourg court is due to rule on allegations that they overcharged BCCI creditors by 40 per cent during the first six months after the bank's collapse in 1991. The charge has been strenuously denied.

The latest problem is one of a series, largely caused by the international nature of the liquidation, which has dogged the settlement.

An original settlement, agreed in 1992, was blocked by Luxembourg courts in 1993.

The second settlement, agreed by Luxembourg late last year, involves several contributions from third parties. Abu Dhabi's payment of $1.55bn will be boosted by $250m held in an escrow account.

The collapse of BCCI, which operated in 69 countries, has already prompted more than 2,000 legal actions.

Creditors could eventually be paid more than 40 per cent of their losses if they benefit from court actions taken on their behalf.

Microchip advance promises 'electronics revolution'

By Paul Taylor in London

Texas Instruments, the US electronics group, will announce today that it has developed the technology to build a thumbnail-sized computer chip with the processing power of 20 personal computers.

The new semiconductor technology will enable engineers to build much more powerful and complex consumer electronics and other devices such as videophones and voice recognition systems. Early applications include telecommunications and wireless communications.

Called "Timeline technology" to advertise the company's initials, it is capable of building computer chips with electrical connections as thin as 0.18 microns wide – less than one two hundred thousandth of a centimetre.

It will be possible to pack 125m transistors on to a single silicon chip – more than double the number possible with current 0.25 micron processes. A width of 0.18 microns is the equivalent of one six-hundredth of the diameter of a human hair.

"This dramatic order of magnitude increase in transistor availability will create a new systems and applications domain which will revolutionise the electronics industry," said Mr Rich Templeton, senior vice-president of TI's semiconductor group.

"Today's most complex chips range from five to seven million transistors. This dramatic increase in transistor count will create systems and applications that we have not even started to imagine," Mr Templeton said.

TI recently announced plans to build a $2bn semiconductor facility in Dallas which will manufacture the new chips from 1997.

The technology will allow TI to put computer microprocessors, memory and other special functions on to a single silicon chip, reducing the number of semiconductors required for consumer electronics by as much as 90 per cent.

Most electronic systems today are built using many semi-

Continued on Page 22

CONTENTS

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux.	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Bulgaria	Lw130.00	Iceland	Ikr230	Neth	Fl 4.75	S. Africa	R12.00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira90	Spain	Pta250
Czech Rp	Kc50	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Denmark	DKr18	Italy	L5200	Oman	OR1.50	Switz	SFr3.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£85.00
Estonia	Ekr 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
Finland	FM15.50	Kuwait	Fils650	Portugal (mland)	Es340	Turkey	L80,000
France	FFr11.50	Lebanon	LL3,000			UAE	Dh12.00

 No 32,994

NEWS: EUROPE

Zyuganov flies in face of IMF pact

By John Thornhill in Moscow

Russia will regain control of its economic destiny, stimulate growth of 9 per cent a year by the turn of the century, and provide social justice for all if the country votes communist in next month's presidential election, Mr Gennady Zyuganov, the Communist party candidate, said yesterday.

He released the party's long-awaited economic programme – From Destruction to Creation, Russia's Path into the 21st Century – which lays out a three-stage plan to revive the economy by 2010 and correct the "catastrophic results" of the past four years.

The highly interventionist programme would put Mr Zyuganov on a direct collision course with the International Monetary Fund, which recently backed President Boris Yeltsin's economic reform programme with a three-year $10.2bn loan.

Russia's infant capital markets seem likely to treat Mr Zyuganov's economic programme with scepticism – although some of the concrete details have not yet been worked out.

"The programme is both Utopian and vague and seems certain to spark inflation," said one commentator yesterday.

Mr programme condemns the current tough anti-inflationary policies, backed by the IMF, and the liberalisation of trade, blaming them for devastating Russia's industrial base and exposing manufacturers prematurely to global competition.

The 20-page programme, adopted by the National-Patriotic bloc which backs Mr Zyuganov in next month's presidential elections, suggests that the agreement with the IMF will have to be revised to allow Russia to regain its "economic sovereignty".

The programme's chief goals are to stimulate domestic industrial production and ensure greater social justice. It also defends the concept of a "multi-layered economy" and does not envisage sweeping re-nationalisation of legally privatised companies.

To defend domestic manufacturers, the programme envisages raising import tariffs, creating state-directed investment banks, halting capital flight, and encouraging foreign investment in technological fields.

In rhetoric harking back to Soviet Five Year Plans, the programme calls for a three-stage development programme. The first stage, to be completed by 1997, envisages the lowering of energy prices to stimulate greater industrial production.

The second phase, to be implemented between 1998 and 2003, promises to step up targeted investments in manufacturing sectors of the economy. The third, to be completed by 2010, envisages the creation of "post-industrial technologies" and Russia's entry into world markets.

The programme's chief authors appear to be economists active in the late Soviet era and flashes of old-style Communist thinking are evident in many sections.

German business shows signs of cautious optimism

By Judy Dempsey in Bonn

Germany's business community is showing signs of cautious optimism for the first time in more than a year – based on a rise in export orders and hopes of a long-awaited recovery in retailing, Ifo, the Munich-based institute for economic research, says in a report today.

But the east German business community does not share this new mood, says the report. Wholesale and retail trade in the five eastern states remains depressed as consumers continue to save and unemployment continues to rise.

The report coincides with a cautiously optimistic statement from Gesamtmetall, the engineering association, which said the worst of the crisis for the metals and electronics industry was past.

"We are on the right path, no question, but we have only made the first few steps," said Gesamtmetall's designated chief, Mr Werner Stumpfe.

The statement said earnings had improved since a crisis in 1993 but were not yet satisfactory. The return on equity last year was 11.5 per cent, against 17 per cent in 1989-90. Net profit in west Germany was DM12.5bn ($8.1bn) in 1995, compared with DM20bn in 1989.

The upturn in confidence is expected to provide a psychological boost for industry, after last week's discouraging statement by the economics ministry, which said gross domestic product had contracted in the first quarter of this year for the second successive quarter.

It might also give Chancellor Helmut Kohl's governing Christian Democratic-led coalition a fillip in opinion polls after support for the government has waned against the background of plans to push through an tough austerity package.

A weekend survey in the liberal Süddeutsche Zeitung said support for the coalition fell last month by two percentage points to 41 per cent, while support for the opposition Social Democrats rose three percentage points to 34 per cent.

Ifo, which bases its report on research conducted in April, believes the grounds for cautious optimism among the business community stem partly from the rise of the US dollar. The strong D-Mark and the weak US dollar were among the main reasons for lower profits, particularly in the machine-building and pharmaceuticals industry last year.

Construction and retailing remain fragile, but Ifo says retailing is no longer in the "hypothermia zone". In April, the German consumer had started to buy more clothes, shoes and home electronic equipment.

The findings will almost be certainly welcomed by Germany's Association of Retailers, which recently reported a 2 per cent fall in retail sales last year, with little prospect of growth this year.

As for the construction industry, any upturn which Ifo detects may allay fears of the sector remaining in recession this year.

Last month, Ifo said the building industry was in its first recession since German reunification, would face job losses of 80,000-100,000 this year and would record a decline in investment by 2-3 per cent.

Berisha's supporters celebrate victory outside Democratic party headquarters at the weekend Reuter

Albanian elections send tremor through Balkans

Allegations of poll fraud have plunged country into turmoil, says Kevin Done

Four years ago Mr William Ryerson, then US ambassador to Albania, campaigned openly on platforms alongside President Sali Berisha for an election victory for Albania's fledgling Democratic party.

But serious concerns about the development of democracy under Mr Berisha meant the US played a more restrained role, falling well short of expressing support for any party, in the dramatic run-up to last Sunday's general election.

The election has plunged the country into political turmoil amid widespread allegations of ballot rigging, electoral fraud and intimidation and violence against the opposition. It will take some time for the full picture to emerge, but the evidence is starting to grow.

A group of eight European politicians, sent by the parliamentary assembly of the Organisation of Security and Co-operation in Europe as election observers, were highly circumspect yesterday, but admitted they observed "a number of irregularities and technical shortcomings" in the election.

One of the eight – Mr Urban Ahlin, a Swedish MP – was more forthright. "I saw one man coming out of a polling booth with seven or eight ballot papers, which he pushed into the ballot box. I went into the booth and saw a woman filling in ballot papers, as if she was on a production line in a factory," he said.

At another polling station the seals on the ballot box had been changed during the day, but local election commission officials insisted the box had not been touched, he said. Mr Ahlin had asked to see an opposition member of the supervising commission, but was told they had all left.

Albania's Socialist party, the reformed former communists, have led the charges of manipulation and harassment against the Berisha government, and decided on Sunday to pull out of the election, withdrawing their candidates and members from the electoral commissions and announcing a boycott of the next parliament.

Mr Kastriot Islami, a Socialist MP and party spokesman, claimed that many opposition members of local election commissions had been arrested and some beaten. Some voters had been intimidated by police. Voter lists had been changed and names added without addresses or identification.

The Democratic party has rejected the Socialist claims as provocations, and President Berisha yesterday attacked the opposition in a triumphal address as "political gangsters" bent on returning Albania to communism.

He thanked western countries for their support, claiming they had launched a Marshall Plan to haul the country out of chaos in 1990-91 and to turn Albania – still Europe's poorest country – into the fastest growing economy in Europe in the past three years. He promised to advance rapidly the integration of Albania into western Europe and western defence structures.

Western support for President Berisha has been rewarded, with Albania providing a surprising island of stability in the Balkans cauldron. It has played a constructive role in containing the dangerous tensions in neighbouring Kosovo, where around 2m Albanians – 90 per cent of Kosovo's population – live in a virtual police state under severe repression from Belgrade.

Kosovo still poses a potent threat to the peace process in former Yugoslavia, and western countries have successfully encouraged Mr Berisha to play down support for outright independence for Kosovo, the demand of the local Albanian population.

President Berisha is now likely to come under increasing pressure from the west to put his disorderly domestic house into order.

With its sensitive borders and uncomfortable neighbours in Serbia and Montenegro, Macedonia and Greece, Albania's strategic importance in the Balkans is undiminished. But with as many Albanians living immediately outside the country's borders, chiefly in Serbia and in Macedonia, as within Albania itself, the potential for finding the next Balkan tinderbox in this part of the region is considerable.

The west needs a stable Albania. But the weekend's election and its aftermath are sending new tremors through the Balkans, and Mr Berisha, a former cardiologist and doctor to the communist elite, has yet to show that he can provide the care to help the country over the deep scars left by the brutal regime of the Stalinist dictator, Enver Hoxha.

Turkish Islamic party urges confidence vote

By John Barham in Ankara

Turkey's Islamic fundamentalist party, Refah, yesterday demanded that parliament be reconvened this week to vote on a motion of no confidence in the country's troubled minority coalition government headed by Mr Mefsut Yilmaz.

Mr Yilmaz's own conservative coalition partner, Mrs Tansu Çiller, said Mr Yilmaz "should either resign or [I] will support Refah's vote of censure". Mr Yilmaz himself seems to have lost his appetite for power. "Let anyone wanting early polls bring this to parliament and we will support them," he said.

Refah and Mrs Çiller's True Path party, could easily muster the 276 votes needed to bring down the government, which only took office on March 12. It is now for the parliamentary authorities to decide whether to arrange the vote.

Turkey has been adrift since Mrs Çiller's coalition government collapsed in September. Elections in December produced a hung parliament in which Refah won 158 of the 550 seats to become the largest party in parliament.

The politically powerful army forced Mr Yilmaz and Mrs Çiller, rivals for control of the centre right, to form a minority government. As both had won roughly the same number of votes, they negotiated a agreement in which Mr Yilmaz would serve as prime minister this year and Mrs Çiller would take over in 1997-8.

The government was 15 seats short of a majority, but has survived thanks to the tacit support of the moderate Democratic Left party (DSP) of Mr Bülent Ecevit, a former prime minister.

Far from producing a truce, the agreement simply intensified two conservative parties' battle for hegemony over the centre right, Turkey's political heartland. But neither was willing to risk the army's ire by bringing down the government.

Mr Yilmaz said: "It is very hard to see any solution as long as both leaders are around and the centre-right is unable to unite."

Many political commentators warned from the outset that their marriage of convenience could not last, but few expected the divorce so soon.

Analysts now fear that the electorate, disillusioned by conventional politicians may turn to Refah, which aims to transform Turkey's 73-year secular state into a theocracy. Local elections next Sunday are expected to show increased support for the DSP and Refah.

Refah has skilfully exploited the fight to further its own ambitions. It won support from Mr Yilmaz's conservative Motherland party to set up parliamentary committees to investigate corruption allegations against Mrs Çiller that were first made by Mr Yilmaz himself. In retaliation, True Path ministers boycotted cabinet meetings.

The Islamists even won a constitutional court ruling that parliament's March 12 vote of confidence was invalid, undermining the government's legitimacy and giving Mrs Çiller the justification she needed to formally break her alliance with Motherland.

Stung by Mr Yilmaz's accusations that she misappropriated $6.5m from a prime ministerial discretionary fund, she announced at the weekend that she would no longer support the government. Yet her ministers would remain in cabinet until being replaced by a new majority government. Like Mr Yilmaz she seemed unwilling to take the final step of bringing down the government.

Coalition partners fall out

Tansu Çiller

Çiller on Yilmaz:

"He does not know anything apart from fighting and conspiring."

"He is not the prime minister anymore, but he does not leave. He is just hanging around like a ghost."

"He is a slanderer – he stabbed me in the back."

Metsut Yilmaz

Yilmaz on Çiller:

"She is double faced."

"We never broke the coalition protocol, but Çiller did three times."

"This is not serious. Çiller is panicking. She is saying unnecessary and inconsistent things."

Kuchma sacks prime minister in loyalty feud

By Matthew Kaminski in Kiev

Ukrainian President Leonid Kuchma yesterday sacked his prime minister, Mr Evhen Marchuk, citing slow progress on economic reform and lax budget discipline by the cabinet.

But the sacking follows a long political feud. Personal rancor between Ukraine's two most powerful political figures, whose responsibilities are vague in the absence of a constitution, was never far beneath the surface.

The president did not name a replacement or indicate whether a new cabinet would be named in the second largest former Soviet republic.

Mr Kuchma this month reprimanded the cabinet over public sector wage arrears, totalling 177,000bn karbovanets ($961m) which have enraged government workers, and prompted the teachers' union to schedule a strike for today.

In newspaper interviews and public statements, Mr Kuchma and his close aides have long questioned Mr Marchuk's loyalty to the president. The prime minister, rather than run the government, "concentrated his time on building an independent political image", according to yesterday's statement from the presidential press service.

Feuding within Ukraine's political class grew worse last week when Mr Marchuk bitterly criticised the president in an interview with Zerkalo Nyedely, a Kiev weekly. He then came out against Mr Kuchma's call for a referendum on the draft constitution, which the president has made his top political priority. Ukraine is the only former Soviet country which has not yet put a constitution in place.

Mr Marchuk may try to rebuild his political fortunes from parliament, where he won a seat in December by-elections. Some MPs have called on Mr Marchuk to run for speaker, but analysts said he first needed to build a stronger political base.

Possible candidates for prime minister include Mr Pavlo Lazarenko, first deputy prime minister, or Mr Volodymyr Horbulin, the national security adviser – both close to the president.

Mr Marchuk was appointed last year after winning respect in Ukraine for his toughness in dealing with Russia.

Dublin and Milan set pace for growth

By Stephanie Flanders

EUROPEAN CITIES RANKED BY GROSS VALUE ADDED 1994-2000

Top 10 cities*	% per year	Bottom 10 cities*	% per year
Dublin	4.0	Stuttgart	2.1
Milan	3.9	Manchester	2.0
Berlin	3.5	Rotterdam	1.9
Lisbon	3.4	Marseilles	1.8
Barcelona	3.3	Brussels	1.8
Helsinki	3.2	Vienna	1.7
Madrid	3.2	Bordeaux	1.6
Athens	3.1	Cologne	1.6
Bologna	3.0	Rome	1.6
London	3.0	Düsseldorf	1.4

* Excluding eastern Germany. Source: ERECO

Dublin and Milan are expected to be Europe's fastest growing cities over the next decade as a result of their efforts to become more globally competitive, according to a report on European regional prospects from the ERECO consortium of economic researchers.

The consortium, which comprises research institutes from the UK, Germany, France, Italy, the Netherlands and Austria, predicted that Dublin and Milan would achieve average growth in gross value added of 4 per cent and 3.9 per cent, respectively, between 1994 and 2000, compared with a European Union average of 2.7 per cent.

The report defines gross value added as the difference between the value of a city's outputs and the value of the inputs used to make them.

The report says Dublin and Milan have recognised the "need to improve their 'offer' in the face of wider global competition". One of the report's authors, Mr Richard Lewney, of Cambridge Econometrics, says they are among many European cities that have recently sought to transform their declining industrial centres into internationally competitive providers of high-value services.

The report singles out Dublin's recently developed International Financial Services Centre as one example of the city's attempts to address a more international market. Milan has undertaken several projects to redevelop former industrial areas, including the new 680,000 sq m "tecnocity" at Bicocca in the north-east, due to be completed by 1998.

Rome and Düsseldorf are expected to show the slowest growth of the 39 cities surveyed. The report says the Italian capital is "hamstrung" by a low level of technological innovation, a weak financial sector and severe public spending limits.

European Regional Prospects. Full report in two volumes Ecu2,000 ($2,480). Abridged edition Ecu100 from Cambridge Econometrics, Covent Garden, Cambridge, CB1 2HS, UK.

Bonn drags heels on single market

By Neil Buckley in Brussels

Germany and Belgium, two of the firmest supporters of closer EU integration, are among countries that have made least progress in implementing the single market, ministers will hear today.

Aides to Mr Mario Monti, single market commissioner, said he would use the "strongest terms ever" in telling ministers there remained a wide gap between their declarations and actions to implement single market measures – some of which are a decade old and should have been in place three years ago.

Mr Monti is accelerating infringement procedures against countries failing to implement single market law. Infringement cases against member states in the European Court of Justice more than doubled between 1994 and 1995.

The commissioner is also urging full use of a network of "contact points" on single market issues within member states' administrations, so other members know exactly whom to contact with problems or grievances.

A drive to complete the single market, possibly including a firm deadline, is expected to form part of a jobs creation package to be put by Mr Jacques Santer, European Commission president, to the Florence heads of government summit next month.

Mr Monti will present figures showing that only 92.6 per cent of 221 measures in the 1985 Internal Market White Paper requiring implementation at national level have been transposed into national law. Of all 1,378 single market directives, including those in the white paper and some even older, only 89.7 per cent have been adopted nationally.

Best performers on the white paper are Denmark, with 99.5 per cent adoption, the Netherlands with 97.7 per cent, Swe den – despite joining the EU only last year – with 96.8 per cent, Luxembourg on 95.5 per cent, and the UK on 95 per cent. The slowest long-term members are Belgium and Germany, both on 90 per cent, ahead only of new members Finland and Austria.

Germany and Belgium have also recorded the highest number of infringements for non-conformity.

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R F J

Mubarak takes sober line on Israeli election

By James Whittington in Cairo

Egyptian President Hosni Mubarak yesterday dismissed the campaigning in Israel's election as divorced from the reality of the Middle East.

"During elections everyone says that they'll make things very easy and they cover the ground with carpets, but afterwards the reality will hit them," Mr Mubarak said in an interview with the Financial Times.

He was particularly critical of a weekend debate between Mr Shimon Peres, Israeli prime minister, and opposition leader Mr Benjamin Netanyahu, who both pledged to make Jerusalem the undivided and eternal capital of their country.

"Jerusalem is an issue which is negotiable and this has already been agreed upon. Unless the problem of Jerusalem is solved in a convenient way to all parties there will always be big problems... Both Peres and Netanyahu understand this," the Egyptian president said.

Predictably, he said he "didn't care" who was elected as Israel's next prime minister.

"I never get nervous," he said. "This is the fate of the people of Israel. I have good relations with Shimon Peres but I've never met Netanyahu and I don't know his true thinking... If he starts putting obstacles in the way of the peace process, then definitely there will be a big problem, but we'll have to wait and see."

Mr Mubarak also revealed that he had sent a team of inspectors to an alleged underground chemical weapons plant in the Tarhunah mountains, 55km south-east of Tripoli, in Libya.

"We have already sent people to Tarhunah and there is nothing to see inside the tunnels. There is no chemical installation for the time being and there is no activity there."

Mr Mubarak said that Libyan leader Colonel Muammer Gadaffi had asserted that "they can be used as a store for ammunition or something and I am asking him to avoid any involvement in chemical weapons. Otherwise they'll be a disaster."

During a visit to Cairo in April, Mr William Perry, the US defence secretary, said he had evidence Libya was building the world's largest underground chemicals plant. The Libyans claimed it was part of the man-made river development that pumps water from aquifers in the south to urban centres on the Mediterranean.

The Libyan leader has been in Cairo since Saturday for talks about Tarhunah, among other things, and Mr Mubarak said he hoped to persuade him to let a team of international inspectors visit the site. He also said he hoped to get guarantees that Libya would not re-activate the expulsion of thousands of Palestinians.

Last October, Col Gadaffi ordered the expulsion of about 30,000 Palestinians, and other foreign workers, to highlight the difficulties of the Palestinian-Israeli peace agreement.

Many had nowhere to go and could not get papers for entry into Egypt and the Palestinian territories. As creation of a new class of Palestinian refugees began to strain regional tensions, Egypt persuaded Mr Gadaffi to give them a six-months reprieve, which expired at the end of April.

Deep divide, Page 21

Mubarak: critical of debate

Tougher line may affect investors in oil and gas

Kazakhs to tighten up on tax under IMF deal

By Sander Thoenes in Almaty

Kazakhstan has reached a preliminary agreement with the International Monetary Fund for a $450m loan, but it is tied to tougher taxation which may discourage new investments in the oil and gas sector, Kazakh officials said.

The three-year Extended Fund Facility, if approved by the IMF board later this year, would be a step beyond earlier one-year standby facilities. The IMF approved a $10bn facility for Russia last year April.

Mr Uraz Dzhandosov, chairman of Kazakhstan's National Bank, said his government had pledged to cut inflation to 26-28 per cent by the end of the year, down from 160 per cent in 1995 and 1,258 per cent in 1994.

Fund officials had earlier urged Kazakhstan to set a 20 per cent inflation target but raised the ceiling when inflation rates in the first quarter were higher than expected.

Bank financing of the budget deficit should go down to 0.8 per cent of gross national product, with Treasury bills and foreign credits covering the remainder of a 2.8 per cent deficit, according to Ms Zhannat Ertlesova, the first deputy economics minister.

Kazakhstan will be hard pushed to adhere to a tight budget as it faces a looming payment crisis that has brought hundreds of enterprises to a near standstill.

Ms Ertlesova said the government would tighten control over monopolies, especially in energy and transport, which have pushed many enterprises into debt by raising prices.

She said her government had pledged to boost tax revenues from 15 per cent of gross domestic product to 20 per cent, but had resisted IMF pressure to raise existing taxes. Instead, the government would boost returns mainly by improving tax collection and by introducing new taxation on natural resources.

Ms Linda Senat, vice president of the International Tax and Investment Centre, a London-based lobby that has focused on oil taxation in Kazakhstan, said that the Kazakh parliament appeared keen on passing a draft law on taxation of natural resources within a month.

"It's quite a tough regime," said Ms Senat. "And there are still gaps that leave a lot of uncertainty. The tax inspectorate is trying to find the right balance between revenue raising and foreign investment."

Most current investors in the Kazakh oil, gas and gold sectors have obtained tax exemptions, but some, including a large British Gas venture, may face tax increases because they have yet to sign a production sharing agreement.

New investments that could be affected include the Vasilkovskoye gold mine and the Zhanazhol and Kumkol oilfields, which are up for tender.

Ms Ertlesova said the government would continue interest payments on foreign debts to regain trust abroad after a number of defaults in previous years.

The government would now only guarantee viable investments in infrastructure and social projects, relying on private investments for other sectors, she said.

The tough budget will also hurt social welfare, already devasted by years of low financing.

Ms Ertlesova said that social services, much of which used to be provided by local industries, would be transferred to city governments.

Lebanon banking law boosts financial hopes

By Roula Khalaf

Lebanese banks have welcomed a law passed last week which allows them to float up to 30 per cent of their shares without prior central bank approval.

Bankers warned, however, that the stock market's lack of liquidity and the absence of an independent stock exchange regulator would continue to delay listings.

After last month's Israeli bombing campaign disrupted reconstruction efforts, it has become all the more important for Lebanon to bolster banks and the bourse – both central to its efforts to re-emerge as a regional financial centre.

Lebanon's banks survived the country's 16 years of civil war partly due to regulation, imposed during the war, which forced them to obtain prior central bank approval for each new shareholder. The central bank's aim was to shield a vital industry from being taken over by unsavory investors or abused by militia warlords.

But the regulation became a liability once the war ended and the steep devaluation of the Lebanese pound eroded the banks' capital.

As foreign banks began trickling back to Beirut, bringing capital and expertise, Lebanese banks' need to recapitalise increased and bankers lobbied for the regulation to be scrapped.

The new law will enable Lebanon's 79 banks to compete on a better footing with foreign newcomers.

It also acts as a first step towards injecting some life into the Lebanese bourse, which opened after much delay earlier this year but still has only four stocks listed and a daily trading volume of only a few thousand dollars.

Some bankers said the new law was in itself insufficient while the stock market was so limited.

"It is a good law provided there is a stock market and the market is strong enough and liquid enough," said one banker. "The first condition for anyone to list is liquidity and depth of the market."

Lebanese officials are partly pinning their hopes for Lebanon's revival on a vibrant stock exchange where they expect companies from other Arab countries – Syria in particular – eventually to list their shares.

Lebanon's family-controlled businesses have been slow to issue shares on the bourse and have been discouraged by undervalued balance sheets resulting from the local currency's depreciation.

Mr Freddie Baz, adviser to Banque Audi, which is expected to be among the first banks to list, said he would like to see how the bourse will be regulated before applying for a listing. "We want to see tighter surveillance to make sure that the stock exchange is well regulated," he said. The Lebanese government, however, is still working on setting up a securities and exchange watchdog.

Perhaps as important for Lebanese banks is another law passed by parliament last week enabling them to manage fiduciary accounts and other off-balance-sheet items. This law will allow Lebanese banks to place depositors' funds with other institutions outside the country and manage them in return for a fee.

With billions of dollars held by Lebanese outside the country, this could prove a boon to some banks, especially as the accounts will not appear on the domestic institutions' balance sheet nor raise the banks' risk profile.

"This is the most important development in the banking system since bank secrecy laws," Mr Baz said. "The mix – of bank secrecy and fiduciary accounts – will give the banking system a new competitive edge."

INTERNATIONAL NEWS DIGEST

Thai finance minister quits

Mr Surakiart Sathirathai, Thailand's embattled finance minister, yesterday submitted his resignation at the request of Prime Minister Banharn Silpa-archa. Mr Surakiart is the 11th Thai cabinet member to resign in recent days, paving the way for Mr Banharn to reshuffle the cabinet, a move crucial to his own political future. The prime minister had an audience with Thailand's king last night to review the new cabinet line-up but did not make an announcement or say whether he had accepted Mr Surakiart's resignation.

But Mr Surakiart said he considered his removal to be a done deal. "I hope my successor continues Thailand's programme of financial liberalisation," he said.

Local newspapers said the likely candidates to succeed him were Mr Bodi Chunnananda, former head of the Budget Bureau, and Mr Paron Israsena, president of Shinawatra Satellite and former head of the royally owned Siam Cement Group. *Ted Bardacke, Bangkok*

S Korean growth put at 7.9%

The South Korean economy grew by a surprisingly buoyant 7.9 per cent during the first quarter of 1996, but the central bank warned the gross domestic product growth rate would slow. GDP growth in the first quarter was higher than the previous quarter's rate of 6.8 per cent and exceeded the central bank's forecast of 7.3 per cent. The upsurge in economic performance reflected strong exports, increased infrastructure construction and robust consumer spending.

Exports rose by 24 per cent as shipments of electronics, transport equipment and industrial machinery increased to east European countries. The construction sector grew by 9.3 per cent as spending on public works increased, while private consumption rose 7.2 per cent. The central bank predicted that economic growth would slow in the second quarter because of sluggish exports of cars and semiconductors and a fall in construction investment. *John Burton, Seoul*

Israeli interest rates to rise

The Bank of Israel yesterday said it would raise interest rates 0.7 percentage points in June in an attempt to rein in inflation after consumer prices rose 1.7 per cent last month. The increase in April's monthly index put inflation for the first four months of the year at 4.5 per cent, suggesting that the 1996 rate will far exceed last year's 8 per cent.

After the interest rate increase in June, commercial banks will pay 15.5 per cent in interest to the central bank instead of 14.8 per cent. The Bank of Israel has kept rates high as part of its plan to control inflation, keeping the Israeli shekel stable at around three to the dollar for more than three years. Critics say the policy has caused Israel's growing trade deficit, which reached $2.97bn in the first quarter of 1996. *AP-DJ, Jerusalem*

NSW pensions group to be sold

The New South Wales state government will go ahead with privatising the state pension fund management unit, which handles around A$17bn (US$13.6bn) of public servants' retirement funds. Fund management businesses usually sell at 1 to 2 per cent of funds under management, suggesting the disposal could bring in A$200m-A$400m for the state government. The government announced earlier this year it was splitting out the fund management arm of the State Superannuation Corporation from the administration unit, and Mr Michael Egan, state treasurer, then said he was in favour of privatising the former part. *Nikki Tait, Sydney*

Japan's giants recruit more graduates

By William Dawkins in Tokyo

Honda, the Japanese carmaker, yesterday said its graduate intake would double this year, its first increase in four years and the latest indicator of the improved economic outlook for Japan's largest companies.

The Honda announcement marks a break with the graduate recruitment freeze introduced by most of the top industrial companies after the collapse of the "bubble economy" of the late 1980s.

Honda officials said the decision came thanks to increased car sales in Japan, a factor in the group's 22 per cent increase in pre-tax profits in the year to March, announced last week.

But Honda's performance, while impressive, is only slightly better than the average 19.9 per cent annual profits increase reported by 800 leading companies to date, the fastest profits growth for seven years, according to Wako Research Institute of Economics, an affiliate of the stockbroker of that name, yesterday.

Honda will hire 400 graduates this year, which compares with the 700 graduate posts, a 40 per cent increase on last year, announced recently by Matsushita, the world's largest consumer electronics company and a Japanese industrial employment trend-setter.

Other pillars of Japan's industrial establishment to have announced increases in recruitment this year include Toyota, the country's largest car group, where new jobs will rise nearly 60 per cent and NEC, the country's top computer producer, up 20 per cent.

Recruitment increases have even spread to financial services, where stockbrokers Yamaichi Securities, Daiwa Securities and Nikko Securities have all announced over the past week that they will seek extra graduates this year.

On average, corporate Japan is expecting to hire 24 per cent more university graduates this year than last, a 10-fold increase on last year's 2.4 per cent recruitment growth rate, according to a company survey by the Nihon Keizai Shimbun economic newspaper.

These intentions are reflected in a slightly increase in the ratio of jobs on offer for every 100 applicants, from a recession low of 61 last July to 67 at the most recent count in March.

Alarms sound over China's slower economy

Tony Walker reports on fears about the effect of strict curbs on fixed asset investment

Likening China's economy to a "three-horse cart" which had "lost several of its horses," Mr Zheng Jingping, a senior official of the State Statistical Bureau, recently sounded the alarm over China's slowing economy.

Chinese economists and their western counterparts have become increasingly concerned by sluggish jobs growth, a continuing build-up of inventories and increasing state enterprise debt.

The economy has been driven during the past several years by strong export growth, robust fixed asset investment and high levels of consumer spending, but indications that economic activity may be slowing too rapidly are likely to increase pressure on the government to ease credit, and perhaps institute an additional round of interest rate cuts following the May 1 reduction.

China, it seems, is entering a new and testing phase in its efforts to maintain growth while curbing inflation.

China's export growth faltered in the first quarter – it recorded a trade deficit of $1.15bn in the three months to March – and fixed asset investment has slowed sharply in line with the government's stabilisation programme. This was instituted in July 1993 to cool an overheating economy and calm inflation, which reached a post-1949 revolution high of 21.7 per cent in 1994.

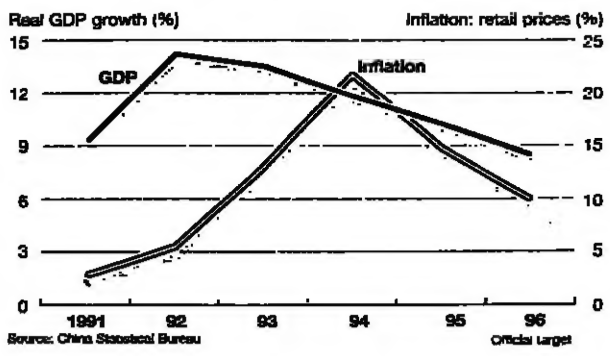
Unrestrained growth in fixed asset expenditures during 1992-1993 boom years was blamed for creating excessive demand and feeding inflation, but economists worry that strict curbs on investment in capital construction and upgrading plant and equipment may have gone too far.

Mr Zheng noted that in the first quarter fixed asset investment grew by 16.2 per cent, an 18 per cent decline on the same period last year. "For a huge developing country, the motivating power behind economic growth should come mainly from fixed assets," he said.

"Allowing the trend [of slowing investment in fixed assets] to continue will be likely to mean the country suffering a substantial slowdown this year," Mr Zheng warned.

But retail sales continue to be strong, with sales volume up 23.6 per cent on the same period last year. Actual growth after inflation was about 15 per cent, twice the average level of

China: slowing down



Source: China Statistical Bureau

the same period during the past three years.

Mr Wu Jinglian, a senior adviser to the government in his role as research fellow at the State Council's Development Research Centre, is among Chinese economists who have been warning about a slowing economy. Mr Wu said in an interview China might have "gone too far" in its retrenchment and there were arguments for a further selective easing of credit.

Officials in the People's Bank of China, which is leading the fight against inflation and seeking to hold the line on monetary targets, have also begun worrying about slowing economic growth. Mr Wang Dayong, of the bank's policy unit, said recently there were arguments for a further loosening of the reins since the economy may have "contracted too quickly" in 1995.

Economic growth reached 10.2 per cent last year and continued at that rate in the first quarter, but economists are revising downwards their growth estimates for this year. Mr Zheng Jingping of the State Statistics Bureau said growth could slow to 7 per cent as a consequence of the drop in fixed asset investment.

The brokers W.I. Carr, like other observers in the west, are also beginning to reassess forecasts for China growth this year. Carr had been predicting 10 per cent growth, but Mr Joe Zhang, associate director of the brokerage's Economics Unit in Hong Kong, said the unit was "re-doing it numbers" and a lower growth forecast was likely.

Mr Zhang also noted the emergence of what may prove to be a worrying structural problem for Chinese industry and exporters in particular – that of market saturation: "Since the second half of 1995 the world market has been saturated with cheap Chinese products. . . The question is how much more can the world market absorb of goods at the lower end of the spectrum."

Among indications of slowing activity is the continuing rapid rise in inventories. "Many companies are recording very poor sales to production ratios," said Mr Zhang who added that bulging inventories might account for as much as 5 per cent of GDP.

The lingering credit squeeze, which has exacerbated China's triangular debt problem – the inability of enterprises to pay each other for goods and services – has also been reflected in extremely poor results for many companies, especially machinery manufacturing for such sectors as textiles.

Unemployment rates are also rising. The official jobless figure among urban workers is 3 per cent, but the actual figure is almost certainly much higher, especially in China's depressed north-east industrial heartland.

China's policymakers in their efforts to provide selective economic stimulus – credit has been easier since the last quarter of 1995 – must also be wary about a resurgence of inflation. W.I. Carr is forecasting a 13 per cent rise in retail prices for the year and monthly inflation running at 17 per cent year on year by the end of 1996.

This would be an ominous development for a government which has said it would be prepared to sacrifice growth in the interests of keeping prices rises in check. But with the economy apparently slowing faster than expected, there are no easy choices.

TIANANMEN PROTEST OFFICIAL LEAVES JAIL

China yesterday released Mr Bao Tong, the most senior official jailed in connection with the 1989 pro-democracy agitation, but he is being kept under virtual house arrest near Beijing, Tony Walker writes. Mr Bao, 63, was spirited away to Beijing's Western Hills resort on his release, apparently to shield him from the foreign press, which had staked out his home. China is treating Mr Bao's release with great caution since it comes just one week before the seventh anniversary of the June 4 crackdown in which dozens of demonstrators died at the hands of the security forces in and around Beijing's central Tiananmen square. Ms Bao Jian, Mr Bao's daughter, reported her father was being held, following his release after serving a full seven-year jail term, until after the Tiananmen anniversary. Mr Bao Tong was aide to Mr Zhao Ziyang, the former Communist party chief ousted in a "palace coup" by hardliners, who demanded his removal for letting demonstrations get out of hand.

Carmaker to end some outsourcing

By Michiyo Nakamoto in Tokyo

Mitsubishi Motors is to take back the production of some automatic transmissions in-house to raise capacity utilisation amid the increasingly competitive market environment.

MMC's move contrasts sharply with that of GM, the US vehicle manufacturer, which faced a strike over its plans to outsource some parts manufacturing to cut costs.

Rather than close a line, reduce its workforce and cut costs MMC is increasing production to keep its workers busy. The Japanese carmaker is investing Y10bn ($94m) in an engine manufacturing line in Kyoto to equip it for the production of an additional 180,00 transmissions.

With a mature domestic market and a need to shift more production overseas to cope with the high yen, a number of Japanese carmakers have struggled with low capacity utilisation rates and excess workers. Some industry analysts believe two or three car manufacturing plants need to be closed to improve the competitiveness of Japanese carmakers. However, the social stigma attached to closing a manufacturing facility or laying off workers means that few companies chose to do so.

"The Japanese have taken a different strategy to the US in restructuring," notes Mr Enda Clarke, industry analyst at Dresdner Kleinwort Benson in Tokyo. Other Japanese companies have also been taking back work from suppliers or adding parts manufacturing. Nissan, for example, has taken over some axle production from Unisia Jecs, one of its biggest suppliers, while others have kept the production of high-value-added airbag parts in-house, Mr Clarke noted.

MMC, which could save Y16bn a year by taking automatic transmission production in-house, needs to secure stable income for its engine business. Its agreement to supply Chrysler, the US carmaker, with 400,000 engines a year is expected to end in 1999. The engine contract with Chrysler represents just under a fourth of Mitsubishi's engine production at Kyoto, which has an annual capacity of 1.8m units and an estimated Y40bn in sales.

Howard may sidestep MPs on sell-off plan

By Bethan Hutton in Sydney

The Australian prime minister, Mr John Howard, said yesterday he was prepared to use any lawful means to fulfil his election promise of privatising one third of Telstra, the national telecommunications carrier, even if it involved bypassing parliament.

His comments follow the government's admission that it was examining a possible way to sell off part of Telstra without having to pass a bill through the Senate, where there is no government majority and where opposition politicians are extremely hostile to the plan. Last week Labor and Democrat senators delayed the proposed privatisation by referring it to a select committee.

The government's legal advisers say it could avoid the need for legislation by transferring Telstra assets to a new company, jointly owned by Telstra and the government, and then to a third, wholly government-owned company, which would be outside the jurisdiction of legislation covering Telstra.

Critics said the scheme would be more complicated and expensive than a straightforward privatisation, and could reduce consumer protection.

The opposition communications spokesman, Mr Chris Schacht, accused the government of a "snub to parliamentary democracy", and said it had been "extremely duplicitous" in starting to plan the alternative privatisation route within days of its election in March. Mr Schacht said the scheme could cost A$1bn-A$2bn (US$800m-US$1.6bn)in stamp duty. Mr Jim Short, assistant treasurer, denied that the scheme would amount to asset stripping.

The minister for communications, Mr Richard Alston, said that the straightforward parliamentary route was still the government's preferred option.

The Telstra privatisation plan was a controversial part of the Liberal-National party coalition's election manifesto, as it was tied to a A$1bn environmental programme, which the coalition said could not be funded without the proceeds from partial sale of Telstra. The sell-off is expected to raise about A$8bn.

Howard: no majority in the senate

IMF sees higher growth for Philippines economy

By Edward Luce in Manila

Philippine gross national product is set to grow by 7 per cent in 1996, up from 5.7 per cent last year, according to a letter of intent to be signed by the government and the International Monetary Fund this week.

The letter, setting out conditions and targets for the final year of the Philippines' three-year IMF programme, says the success of the government's reforms has lifted the country's growth rate.

"The IMF is recognising that the country's strong export performance and good investment flows augur well for continued higher sustained growth," said Mr David Nellor, IMF representative in Manila.

Mr Romeo Bernardo, Philippine undersecretary for finance, said the controversy between the IMF and the government last year about what some saw as excessive money supply growth had been overtaken by events. Under the new monetary targets inflation is expected to drop below single digits by July.

"It is quite clear that inflation [11.3 per cent last month] is now on a downward trend," said Mr Bernardo. "The IMF is also confident that we are now in a position to push through our setpiece tax reform legislation, which is the most important remaining condition of the programme."

Under the targets for the remaining 12 months of the $650m IMF programme, the government will have a budget surplus this year of almost 1 per cent of gross domestic product – or 17.5bn pesos ($670m) – and record an inflation rate of between 6 and 7 per cent by December.

The ceiling for broad money growth (M3) will be cut from 31 per cent to about 25 per cent and the central bank's foreign exchange reserves will rise to two-and-a-half months worth of imports or about $10bn.

The country's debt service costs, as a proportion of exports, will fall from 14 per cent to 12 per cent.

The Philippine government, which yesterday announced it was returning to the Samurai bond market for the first time in 15 years with $400m worth of yen-denominated debt in July, says it is confident it will persuade Congress to enact the controversial tax reforms in the next few weeks.

The tax bill, which has been attacked by powerful business groups opposed to the shift from *ad valorem* to specific excise taxes, seeks to broaden the tax base and guarantee permanent budget surpluses.

The government, which negotiated a compromise with congress at the weekend over the clause on specific excise taxes, says the reform will generate an extra 38bn pesos in revenues per year, enabling it to end its reliance on proceeds from its privatisation programme.

MANILA'S ECONOMIC PERFORMANCE

	1994*	1995*	1996**
GNP growth (%)	5.2	5.7	6.5-7.5
Inflation (%)	9.0	8.1	7.0-8.0
Budget surplus (bn pesos)	18.0	10.0	17.5

*Actual. **IMF target. Source: Department of Finance

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	279.8	−174.2	−163.0	0.7623	100.0
1986	231.0	−140.6	−153.4	0.9836	81.4
1987	220.2	−131.8	−144.1	1.1541	71.9
1988	272.5	−100.2	−107.4	1.1833	67.0
1989	330.2	−99.3	−94.3	1.1017	70.0
1990	309.0	−79.3	−72.7	1.2745	66.7
1991	340.5	−53.5	−6.0	1.2391	65.7
1992	345.9	−65.2	−47.5	1.2957	64.4
1993	397.3	−98.7	−85.4	1.1705	66.3
1994	432.3	−127.0	−127.6	1.1857	65.1
1995	451.6	−123.5	−118.3	1.2928	61.2
2nd qtr.1995	110.0	−33.0	−32.7	1.3175	59.0
3rd qtr.1995	113.1	−31.1	−30.9	1.3020	61.0
4th qtr.1995	117.3	−26.9	−24.1	1.2897	62.3
1st qtr.1996	121.2	−30.3		1.2570	63.7
April 1995	36.0	−11.1	n.a.	1.3279	58.7
May	37.5	−10.7	n.a.	1.3056	59.1
June	36.5	−11.1	n.a.	1.3192	59.0
July	35.3	−11.4	n.a.	1.3335	59.2
August	38.4	−9.6	n.a.	1.2954	61.3
September	39.5	−10.0	n.a.	1.2772	62.5
October	38.3	−9.6	n.a.	1.2977	61.9
November	38.9	−8.5	n.a.	1.2954	62.2
December	40.1	−8.8	n.a.	1.2758	62.7
January 1996	39.3	−11.2	n.a.	1.2634	63.6
February	41.3	−9.1	n.a.	1.2536	63.8
March	40.6	−10.0	n.a.	1.2541	63.8

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	228.2	73.5	64.5	180.50	100.0
1986	208.9	94.2	87.2	165.11	127.7
1987	194.7	83.7	75.5	166.56	138.8
1988	216.7	79.6	67.0	151.51	153.7
1989	245.5	70.6	53.4	151.87	147.0
1990	220.0	50.0	26.5	183.94	132.5
1991	247.6	83.3	62.4	166.44	143.7
1992	254.8	102.1	90.4	164.05	150.7
1993	300.0	120.8	111.1	130.31	181.0
1994	323.5	122.5	108.6	120.99	194.9
1995	331.2	104.3	86.5	121.43	204.8
2nd qtr.1995	87.5	29.1	23.4	111.31	225.3
3rd qtr.1995	81.2	25.3	22.7	122.36	203.7
4th qtr.1995	80.4	22.1	17.5	130.87	187.8
1st qtr.1996				132.92	182.0
April 1995	29.1	8.6	5.2	111.24	226.8
May	29.0	9.9	8.0	111.17	224.4
June	29.4	10.4	9.2	111.51	225.1
July	26.7	7.8	7.2	116.38	217.2
August	28.1	9.5	8.7	122.52	202.6
September	26.5	8.1	6.8	128.19	191.6
October	25.5	6.1	4.3	130.78	188.8
November	26.9	8.1	6.6	131.98	186.8
December	28.0	7.9	6.6	129.85	187.9
January 1996				133.43	182.1
February				132.49	182.1
March				132.84	181.9

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	*242.7*	*33.0*	*22.5*	*2.2260*	*100.0*
1986	*248.5*	*53.3*	*41.3*	*2.1279*	*108.6*
1987	*254.4*	*56.7*	*40.0*	*2.0710*	*114.9*
1988	*272.6*	*61.4*	*41.9*	*2.0739*	*114.1*
1989	*310.1*	*65.2*	*52.0*	*2.0681*	*113.3*
1990	323.8	51.5	38.5	2.0537	118.1
1991	327.5	11.0	−15.6	2.0480	117.1
1992	331.1	16.9	−16.7	2.0187	120.[illegible]
1993	323.3	31.6	−13.4	1.9337	125.[illegible]
1994	358.0	38.1	−17.1	1.9198	125.6
1995	395.0	50.1	−13.4	1.8509	132.1
2nd qtr.1995	99.6	12.2	−1.4	1.8402	133.3
3rd qtr.1995	99.2	11.9	−7.1	1.8624	131.7
4th qtr.1995	100.7	12.9	−4.0	1.8365	132.3
1st qtr.1996				1.8455	130.6
April 1995	33.1	4.6	−0.9	1.8320	134.5
May	32.5	4.0	−0.1	1.8420	132.9
June	34.0	3.6	−0.5	1.8465	132.7
July	32.5	3.6	−3.0	1.8511	133.0
August	32.1	4.0	−2.6	1.8705	131.1
September	34.6	4.4	−1.6	1.8656	131.1
October	33.6	4.0	−2.2	1.8357	132.9
November	33.6	5.2	0.2	1.8363	132.4
December	33.6	3.5	−1.9	1.8374	131.6
January 1996	33.4	3.4	−2.1	1.8460	131.0
February	33.6	5.2	0.4	1.8377	130.8
March				1.8528	130.1

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	133.4	−3.7	−0.2	6.7942	100.0
1986	127.1	0.0	3.0	6.7946	102.7
1987	128.3	−4.6	−3.7	6.9265	102.7
1988	141.9	−4.7	−3.4	7.0354	100.6
1989	162.9	−6.3	−3.6	7.0169	99.6
1990	170.1	−7.2	−7.2	6.9202	103.8
1991	175.4	−4.2	−4.9	6.9843	102.1
1992	182.5	4.5	2.9	6.8420	105.4
1993	178.6	13.3	8.0	6.6281	109.1
1994	198.8	12.9	6.6	6.5659	110.1
1995	221.5	16.9	13.2	6.4460	113.4
2nd qtr.1995	55.8	4.6	3.6	6.4802	113.2
3rd qtr.1995	54.8	3.1	2.2	6.4363	114.0
4th qtr.1995	56.0	4.5	2.3	6.3560	114.3
1st qtr.1996				6.3281	113.9
April 1995	18.5	1.8	1.3	6.4371	114.6
May	18.6	1.3	0.8	6.5218	112.2
June	18.7	1.5	1.5	6.4818	113.1
July	17.6	0.7	1.5	6.4424	114.3
August	18.6	1.3	0.5	6.4322	114.1
September	18.6	1.1	0.3	6.4344	113.7
October	18.5	1.2	0.4	6.4104	113.6
November	18.9	2.1	1.6	6.3308	114.8
December	18.6	1.2	0.3	6.3269	114.4
January 1996	19.1	1.3	2.3	6.3221	114.4
February	18.6	1.6	1.7	6.3189	113.7
March				6.3434	113.7

ITALY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	103.7	−16.0	−5.4	1443.0	100.0
1986	99.4	−2.5	−1.4	1461.6	101.4
1987	100.7	−7.5	−2.1	1494.3	101.1
1988	108.3	−8.9	−8.0	1536.8	97.7
1989	127.8	−11.3	−17.0	1509.2	98.6
1990	133.6	−9.3	−18.0	1523.2	100.1
1991	137.0	−10.5	−17.7	1531.3	98.7
1992	137.9	−8.0	−21.5	1591.5	95.6
1993	144.3	17.9	9.7	1836.7	80.5
1994	160.1	18.6	13.1	1908.6	77.0
1995	177.3	21.1	20.1	2106.4	69.4
2nd qtr.1995	44.5	5.0	5.9	2198.2	66.4
3rd qtr.1995	43.5	7.1	7.1	2096.4	70.0
4th qtr.1995	47.9	6.0	5.0	2061.0	70.4
1st qtr.1996			−1.2	1976.7	73.2
April 1995	12.9	1.6	1.4	2273.5	64.1
May	15.3	1.6	2.1	2159.8	67.4
June	16.4	1.8	2.4	2161.4	67.5
July	16.4	3.5	2.9	2146.5	68.3
August	11.3	2.0	2.2	2080.2	70.6
September	15.8	1.8	2.0	2062.6	71.0
October	16.4	2.1	2.1	2084.7	69.8
November	16.3	2.0	1.0	2064.8	70.3
December	15.2	1.9	2.0	2033.6	71.1
January 1996	13.6	0.1	−1.1	2001.4	72.4
February	16.2	2.1	1.2	1989.6	73.3
March			−1.3	1959.1	74.0

UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	132.4	−5.7	3.8	0.5890	100.0
1986	108.3	−14.2	−1.3	0.6708	91.1
1987	112.3	−16.4	−7.1	0.7047	89.3
1988	120.9	−32.3	−25.0	0.6643	94.7
1989	137.0	−36.7	−33.5	0.6728	91.9
1990	142.3	−26.3	−26.6	0.7150	89.8
1991	147.7	−14.7	−11.7	0.7002	90.5
1992	145.8	−17.8	−13.4	0.7359	87.1
1993	156.1	−17.2	−14.2	0.7780	79.9
1994	174.1	−14.0	−2.7	0.7736	80.1
1995	186.4	−14.1	−8.1	0.8190	76.2
2nd qtr.1995	45.3	−4.0	−2.3	0.8253	75.7
3rd qtr.1995	46.9	−4.3	−2.6	0.8268	75.7
4th qtr.1995	48.0	−3.3	−2.2	0.8267	75.0
1st qtr.1996				0.8208	75.0
April 1995	14.8	−1.7	n.a.	0.8261	75.9
May	15.3	−1.2	n.a.	0.8227	75.7
June	15.3	−1.2	n.a.	0.8271	75.5
July	15.2	−1.4	n.a.	0.8359	75.1
August	15.4	−1.6	n.a.	0.8261	75.8
September	16.3	−1.3	n.a.	0.8183	76.2
October	15.5	−2.0	n.a.	0.8224	75.7
November	16.3	−0.7	n.a.	0.8291	74.8
December	16.2	−0.7	n.a.	0.8285	74.5
January 1996	16.0	−1.7	n.a.	0.8254	74.8
February	16.4	−1.9	n.a.	0.8159	75.3
March			n.a.	0.8212	75.0

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

Daewoo takes over Romanian shipyard

By Virginia Marsh in Cluj, Romania

Daewoo, the acquisitive South Korean industrial group which is already one of the biggest foreign investors in the former eastern bloc, is to take control of one of the Black Sea's most important shipyards.

Under an agreement signed in Bucharest yesterday, it is to invest \$53m in a 51 per cent stake in Romania's 2 Mai shipyard at Mangalia, 45km south of Constanta, the country's main Black Sea port. After Constanta, 2 Mai is Romania's second largest shipyard with capacity to build and repair ships of up to 200,000 deadweight tonnes.

It has two docks including the largest repair dock in the Black Sea and also produces rigs and equipment for the country's offshore oil industry.

Daewoo is already by far the country's most important foreign investor.

It plans to invest \$900m in Rodae Automobile, the joint venture it formed with Romania's second car producer in 1994, has applied for a local banking licence and is also considering projects in the tourism and rail sectors.

Total direct foreign investment in Romania since 1989 reached \$1.78bn at the end of April according to the Romanian Development Agency, the inward investment body.

Romania, which has 12 shipyards, has one of the world's largest shipbuilding industries and the joint venture, first planned two years ago, was delayed partly due to local opposition to selling a company considered of strategic importance to a foreign investor.

Privatisation officials said Daewoo's investment, to be paid in instalments, would boost quality and productivity at the shipyard and that the company had agreed to maintain a workforce of 3,400 for at least two years. Although 2 Mai, built 20 years ago, has orders until 1997, it has been constrained by its outdated technology.

The aim is to increase production from less than one ship a year to more than six and to lift the number of ships repaired at the yard to over 100 a year from about 40 at present. Around 80 per cent of the yard's business comes from outside Romania.

The joint venture is expected to become the third in Romania to qualify for extensive tax breaks, including exemption from profit tax for seven years, given to large investors.

A law, passed in 1994 as a condition of Daewoo's investment in Rodae, gave such incentives to foreign companies investing \$50m or more in industrial projects with at least 50 per cent export and 60 per cent local integration.

Minister brushes aside international criticism

Jakarta presses ahead with national car plan

By Manuela Saragosa in Jakarta

Indonesia has no plans to revise its decision to develop a national car in spite of sharp international condemnation of the policy, which puts established foreign investors in the country's motor vehicle sector at a disadvantage.

"We have no intention of revising the government's programme," Indonesia's minister for trade and industry, Mr Tunky Ariwibowo, told the official Antara news agency.

The Antara report added that the minister did not feel pressured by international criticism.

The minister made his comments after meeting Mr Andrew Card, head of the American Automobile Manufacturers' Association.

The association – grouping Chrysler, Ford and General Motors – has joined in an international chorus of condemnation of the Indonesian policy.

Mr Card warned that several US automotive companies were postponing plans for further investments in Indonesia. In April, a senior Ford executive in Bangkok said the company was revising plans to build a plant in Indonesia because of the country's national car policy.

"Indonesia was on the road to success, but has now put up a stop sign," Mr Card said. "The new national car programme appears to signal a change in direction from its good record on deregulation and promotion of free market principles."

In February Indonesia's government unveiled a package of tariff and tax breaks for Timor Putra Nasional, a company owned by President Suharto's youngest son, to produce a national car in co-operation with South Korea's Kia Motors. The preferential treatment allows the president's son to undercut all established car manufacturers in the country.

> A company owned by the president's son has received tariff and tax breaks

The national car policy has also drawn criticism from Japan and the European Union's trade commissioner, Sir Leon Brittan. Both have claimed that Jakarta's national car policy breaches Indonesia's obligations under the World Trade Organisation.

But no country has yet brought the issue to the WTO. "I can't say what the US government will do. But I do know that we have been advised by the government that this is clearly a violation of the WTO," Mr Card said in Jakarta last week.

There has also been criticism of the way the Indonesian government unveiled the policy. There was no open tender for the project and the announcement surprised a largely unsuspecting market.

Timor Putra Nasional says it has received orders for at least 33,000 Timor cars and that Kia Motors is ready to ship 4,000 sedans in knocked-own form to Indonesia each month starting June this year.

Under the tax and tariff breaks, the company is required to increase its local components content to 20 per cent in the first year of production and 60 per cent in the third year.

There has been some concern that the national car programme will prompt the Japanese government to reduce its aid commitment to Indonesia. Japan is Indonesia's largest donor country and the aid is an important component of the Indonesian government's budget.

Japanese diplomats say that aid to Indonesia could well fall but that this is unrelated to the national car programme.

Aid is "becoming increasingly difficult to explain to the taxpayers as Japan's trade surplus shrinks," Japan's ambassador to Indonesia, Mr Taizo Watanabe, said recently.

Reforms keep US at top of league

By Frances Williams in Geneva

The US and Singapore have maintained their lead as the world's most competitive countries while Germany and Switzerland, Europe's former stars, have been relegated to the second division, according to rankings compiled by the International Institute for Management Development.*

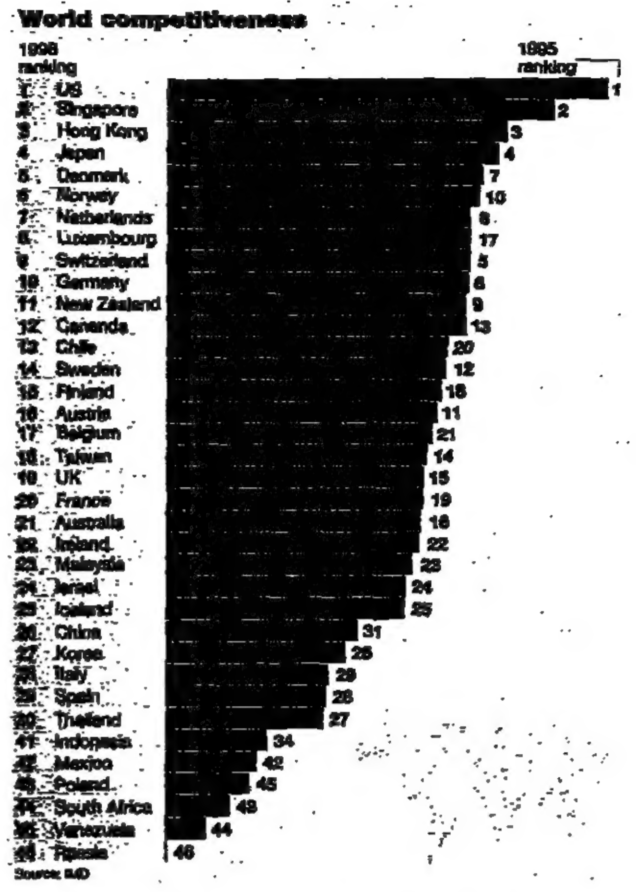
Prof Stephane Garelli, director of the IMD's world competitiveness project, says the US has reinforced its top position with bold economic reforms involving deregulation and privatisation, together with a renewed leadership in new technology. But this gain in competitiveness has been associated with considerable social costs for workers.

Singapore's success rests on government policies conducive to business, high participation in the global economy and efficient financial services, IMD suggests.

But Hong Kong and Japan, third and fourth respectively, "continue to be plagued by uncertainties" relating to the colony's reversion to China next year and continuing lack of confidence in Japanese government policy.

The IMD, a leading Swiss business school, has ranked countries on the basis of 225 criteria drawn from statistical data as well as a survey of business executives.

World competitiveness



Source: IMD

The report is a successor to the World Competitiveness Report previously produced jointly by the IMD and the World Economic Forum, which publishes its own competitiveness rankings on Thursday.

Denmark and Norway have displaced Switzerland and Germany as leading European nations in IMD's table, taking 5th and 6th places. Both score highly on labour force quality and management performance, while the slide down the rankings of Switzerland (9th) and Germany (10th) is attributed to high costs and weak economies.

Elsewhere in Europe, Britain (19th) and France (20th) have slipped further.

In Asia, Taiwan (18th), China (26th) and the Philippines (31st) all advanced up the competitiveness league.

*World Competitiveness Yearbook 1996, available from IMD, CH-1001 Lausanne, Switzerland, fax +41 21 618 0204 or email: wcyinfo@imd.ch.

Observer, Page 21

WORLD TRADE NEWS DIGEST

Taiwan presses N-plant project

The Taiwan government will push forward with a controversial nuclear plant to meet the island's fast-growing electricity needs, despite a parliamentary vote calling for the project to be scrapped.

Taiwan Power Company (Taipower), the state electric utility, at the weekend awarded a contract for two nuclear reactors and related equipment to General Electric of the US. The GE bid of \$1.8bn beat competition from ABB's US unit, Combustion Engineering, and from Westinghouse of the US, which teamed up with the Nuclear Electric of the UK.

The decision followed a vote in the national legislature demanding the cabinet abandon the project, which anti-nuclear activists claim is unsafe and a potential environmental hazard. While largely symbolic, the vote is a warning to the government that there is substantial opposition to the plant.

Brushing aside the controversy, Taipower plans to open bids for the steam turbine generator for the plant in July or August. *Laura Tyson, Taipei*

Carmakers may spin off engines

A radical restructuring of the global automotive sector may soon take place with carmakers spinning off their engine divisions into fully independent companies.

Egis, the Paris-based management consultant, argues this in a new report. Egis believes the transformation could begin as soon as next year. It says investors, consumers, car "integrators" and engine manufacturers would all benefit.

The report argues that such a reorganisation – in which a group of frontline carmakers agree to separate their engine units from their core businesses and to merge them into perhaps two specialised engine companies – would enable the best engines to be produced in much larger quantities.

At present, production of even exceptionally good engines, whose development costs can reach \$1bn, may amount to only about 500,000 units a year.

Egis estimates that over a number of years, a specialist engine maker would be able to offer engines of improved design at prices between 3 per cent and 7 per cent below competitive suppliers. *David Owen, Paris*

**Is the automotive industry facing a radical evolution? Available from Egis, 3 rue de l'Arrivée, 75749 Paris Cedex 15, France. Tel: (331) 45387093*

Enron in Mideast gas venture

Enron of the US yesterday announced that negotiations on a joint venture to build a \$300m regasification plant in the Jordanian Red Sea port of Aqaba had been concluded.

Ms Rebecca Mark, chairman of Enron Development, said talks with Israeli and Jordanian partners had ended and the parties would sign the agreement in the next couple of weeks.

According to the agreement Enron will own 50 per cent of the venture.

The government of Qatar gave Enron approval to market 5m tonnes of liquefied natural gas a year, half to India and the rest to the Middle East, from a planned joint venture in Qatar. The regasification plant would supply Jordan and Israel with Qatari gas from the year 2001. *Reuter, Tel Aviv*

■ SNC-Lavalin, Canada's biggest engineering and construction group, with consultants Klohn Crippen, is doing a US\$5m feasibility study of a highway/light transit system for Pianjin City, 120 miles from Beijing. Total capital cost of the project would be US\$2.5bn. *Robert Gibbens, Montreal*

NEWS: THE AMERICAS

Sponsors flock to touchline of US soccer

By Christopher Parkes in Los Angeles

The retailer Yucaipa Cos, which turns over about $10bn annually with supermarkets such as Ralphs, recently asked to stock the merchandise of Galaxy, star team in the emergent US professional soccer, alongside the corn flakes.

But the offer came too late. The whole season's supply of red, white and blue strip of Galaxy, favourite among Los Angeles' millions of sports-mad but under-served Hispanic citizens, is sold out less than two months after kick-off.

Erring on the side of caution is a self-imposed rule governing Major League Soccer, as the umbrella group for the 10-team league is known. LA match crowds are settling down at around 30,000 after Pasadena's Rosebowl stadium was flooded with almost 70,000 fans when the season opened.

"But I still need to catch myself before I raise my expectations," says Mr Marc Rapoport, the Galaxy's principal shareholder and chairman.

The ignominious collapse of MLS's predecessor, the North American Soccer League, in 1985 is a spectre which helps keep him awake to the risks. NASL's lack of sponsorship, television contracts, and reliance for player-skills on imported old lags have been avoided.

Yet the underlying challenge remains the same: to convert the millions of young Americans who play the game into spectators (and professional players) and reinforce the audience mix to a level at which large companies will pay big-time sponsorship money. The game must also be embraced by the media, ultimately by national network television. To achieve that it has to grow and embrace all ethnic markets.

Although the teams' pulling power varies according to region, average turnout is still 23,000 a game across the league and is more than double MLS budget projections. The main reason, especially for the New York and Los Angeles teams, is a traditional fondness for the game among young men of Hispanic and Latino origin. In LA, home to an estimated 3m Mexicans alone, between 60 and 65 per cent of soccer spectators have Latino roots.

Viewing on Univision, the national Spanish-language television station, is beating all expectations. On the Hispanic May 5 holiday, soccer ranked second in LA viewership ratings, beaten by the appeal of Mr Michael Jordan of the Chicago Bulls basketball team.

League and team officials acknowledge the importance of this ethnic group but pin their hopes for wider acceptance on their belief that the game's cross-cultural appeal was firmly established in 1994 when US cities played host to the World Cup, and a record 3.6m people turned up at the gates.

"We have Latino crowds who love the game with a passion at the highest level," says Mr Alan Rothenberg, league chairman. "We also have millions of Anglo youth who have embraced the sport and who can be converted to paying customers."

Named last week as the first US executive member of the North and Central America and Caribbean Soccer Confederation, Mr Rothenberg says his appointment confirmed the US as "a legitimate soccer power". This claim was enhanced at the weekend with a victory over Scotland, which has qualified for European soccer championships beginning next month.

MLS, which kicked off with some 20 sponsors, is still pulling in money. Last week, Hewlett Packard, the personal computer maker, and EDS, the information technology arm of General Motors joined the list.

Extra funds will help with promotion, league officials say, but stress money has never been an issue in a league where strict limits on player salaries and foreign imports mean no team can "buy" its way to success.

Mexican groups prepare Cuba defence

By Leslie Crawford in Mexico City

Two Mexican companies with investments in Cuba are preparing their legal defence against new US legislation which will bar their senior executives and families from entering the US because of their Cuban links.

Cemex, the world's third largest cement manufacturer, and Grupo Domos, a private group which owns a stake in the Cuban telecommunications company ETECSA, are understood to be on an initial hit-list compiled by the US State Department. Over the next two weeks, companies on the list will receive "advisory" letters drawing their attention to the provisions of the Cuban Liberty and Democratic Solidarity Act.

Under this legislation, better known as the Helms-Burton Act after its congressional sponsors, executives of companies which have traded in Cuban property confiscated from American citizens may be denied entry to the US. Later, executives and shareholders in such companies are expected to receive more specific warning letters, informing them that the US is likely to deny them visas.

Grupo Domos, the biggest foreign investor in Cuba, says it will not abandon its $1.5bn joint venture with the Havana government as a result of US sanctions.

The Mexican company, however, is experiencing difficulties in meeting a final $350m payment for its stake in ETECSA and its hope of finding a foreign partner to foot the bill may have been dashed by the Helms-Burton Act.

Domos's Cuban venture has also placed it on a collision course with International Telephone and Telegraph, the largest corporate claimant against Cuba certified by the US government.

Under the provisions of the Helms-Burton Act, ITT would be entitled to sue Domos in the US for "trafficking" in its confiscated property.

Domos says it had ordered an "exhaustive review" of the legal status of properties belonging to its Cuban telecommunications venture. Mr Manuel Cerillo, Domos's representative in Havana, told the Mexican daily Reforma: "We are not traffickers, we are investors in Cuba, which is a very different matter."

Mr Javier Garza Calderón, the wealthy Mexican businessman who owns Grupo Domos, was not available for comment, but, anticipating trouble with US immigration authorities, he has already brought back two daughters who were studying in Boston.

Cemex, whose global revenues totalled $2.6bn last year, will neither confirm or deny whether it owns property in Cuba. In a brief statement, Cemex said: "Neither the company or its subsidiaries contravene the Helms-Burton law or any of its dispositions."

Last year, however, Lone Star Industries of Stamford, Connecticut, another big corporate claimant against Cuba, issued a direct appeal to Cemex not to take over one of its confiscated Cuban cement facilities. And while Cemex will not say whether the acquisition went ahead, its 1994 company report indicates it was providing "technical support" to a plant jointly owned by the Cuban Cement Producers Association and Bancomext, Mexico's state-owned foreign trade bank.

The report added that the 10-year technical agreement gave Cemex exclusive rights to export the production of five other cement plants in Cuba.

As a result of the marketing arrangement, lawyers believe Cemex may have fallen foul of the Helms-Burton Act's broad definition of "trafficking", which extends beyond the acquisition of confiscated US property to cover anyone "entering into a commercial arrangement, using or otherwise benefiting from confiscated property".

"A key problem is the breadth and vagueness of the term 'trafficking'," says Mr Daniel Price, a partner at the Washington law firm Powell Goldstein, Frazer and Murphy. "On the face of the law, it sweeps in an incredibly wide range of economic activities."

Dethroned Gingrich keeps out of limelight

It was exactly a year ago that Mr Newt Gingrich, Speaker of the US House of Representatives, announced he was going to use the Memorial Day congressional break to go "moose watching" in New Hampshire.

His subsequent visit to the first primary state, replete with a small media army and capped by a public debate with President Bill Clinton, had the trappings of a proto-presidential candidacy, in which he revelled. It is so different now. The leader of the conservative revolution is spending this year's recess mostly unwatched. Not only is Senator Bob Dole, presumed Republican presidential nominee, leaving Congress to avoid association with the Speaker, but even the Gingrich troops in the House are in a state of mutiny.

That was demonstrated last week when dozens of moderate Republicans sided with Democrats to increase the federal minimum wage and then to vote down an exemption for small businesses from having to pay it.

Democratic jubilation over their rare victory – likely to be duplicated, according to no less than Mr Dole, in the Senate after the recess – was understandable. But Mr Gingrich was also made to feel the verbal lash of moderate House Republicans, concentrated but not confined to the north-east. "The centre of the Republican party is back," declared Congressman Amo Houghton of New York.

Even more striking, no fewer than 23 of the 73 Republican freshmen, once the Speaker's rightwing praetorian guard but now feeling the heat of re-election, voted in favour of the first increase in the minimum wage since 1989.

As is customary for the Speaker, Mr Gingrich did not vote, but neither did he utter a word in the preceding debate. He had been saying for weeks that blocking a vote on the minimum wage would probably hurt Republicans in the forthcoming congressional elections, even though he personally thought that higher pay would cost jobs.

He had, therefore, left to his principal deputies – Congressmen Dick Armey, the majority leader, and Tom DeLay, the chief whip – the task of devising a "poison pill" (the small business exemption) to force a veto from Mr Clinton.

In fact, conservative pressure has meant Mr Gingrich has been ceding considerable authority to Mr Armey, in particular, in recent weeks. The outspoken and dogmatic conservative from Texas was inserted into the long budget negotiations with Mr Clinton to stiffen the Speaker's spine and now he, not Mr Gingrich, conducts the regular press briefings on legislation before the House.

Armey, left, has come increasingly to the fore in the House as Gingrich, right, has become accustomed to the back seat *AP*

The decline of Mr Gingrich is a mixed blessing for Mr Clinton and the Democrats. His very visibility and the controversy he generated, best exemplified by his admission that he was moved to shut down the government late last year partly out of pique over his treatment on Air Force One en route back from Mr Yitzhak Rabin's funeral in Israel, made him an easy villain.

By contrast, Mr Armey, a backbench congressman for 10 years before being elevated after the 1994 elections, has nothing like the same public recognition and is, therefore, a lesser target.

However, the latest Washington Post/ABC News poll showed how hard it is for Mr Dole to distance himself from the Republican Congress. It had Mr Clinton ahead by 57-35 per cent, unchanged from the last survey taken before the majority leader said he was resigning his seat, and a 53-43 per cent majority believing that the Republican record did not justify continued control of the legislature.

Little is now being heard of that record from Mr Dole and, when he does speak of it, it is in language far removed from that of Mr Gingrich. The Speaker once said, with typical expansiveness but to damaging political cost, that the reintroduction of orphanages might be a major contribution to welfare reform, which is not a sentiment in Mr Dole's current vocabulary.

Instead, Mr Dole, helped by advertisements from the Republican national committee, is attempting to make Mr Clinton's character – or alleged lack of it – the main issue in the campaign.

On yesterday's public holiday, which honours US war dead, the Washington Times, the ultra-conservative newspaper, ran an advertisement mocking the latest arguments of Mr Clinton's defence lawyers that, as commander-in-chief, he should not have to face the sexual harrassment brought against him by Ms Paula Jones, a former Arkansas state employee.

A Republican TV commercial, set to the tune of "You're in the Army now," brings up the fact that Mr Clinton avoided military service in Vietnam yet is now invoking the legal protection of the uniform. The president, nevertheless, yesterday performed the customary duties at a ceremony at Arlington National Cemetery.

Yet, in all this, the name of Newt Gingrich is forgotten. Ironically, his public debate with Mr Clinton in New Hampshire a year ago – when the two shook hands in pledging to bring about campaign finance reform – was a civilised exchange, at a higher level than what now passes for political debate. But their promise has never materialised and the waters are now rapidly closing over the Speaker's head.

Jurek Martin

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Premier faces party split on EU tactic

By James Harding at Westminster

Ministers last night warned Mr John Major, the prime minister, to abandon his policy of not co-operating in Europe "at the earliest possible opportunity" or face desertions from his Conservative party.

Europhile ministers are expected to press the prime minister to restore normal relations with the UK's European Union partners next week if the EU lifts the ban on UK beef derivatives. Meanwhile Eurosceptics rallied to urge Mr Major to use the UK's veto at all possible EU meetings until a lifting of the entire ban on British beef and related products was in sight.

One minister said "a number of my colleagues in government are very disturbed" by the Eurosceptic drift in government policy. He warned that some ministers could "follow George Walden" – the Conservative MP who threatened to resign the party whip over the weekend – if Mr Major continued to give ground to the right wing in the party.

Another minister described the prime minister's campaign to disrupt European Union business in response to the EU's refusal to lift the ban as an "ineffective and potentially humiliating bluff".

A third middle-ranking minister said he and his colleagues would press the prime minister to produce a "synthetic victory, declare the policy has worked and restore normal relations" if the EU lifts the ban on beef derivatives at next week's meeting. Maintaining an obstructive stance in Europe until the UK is given an explicit timetable on the lifting of the ban would be "lunacy of the highest order", he added. The government signalled its sympathy for that strategy yesterday when Mr Roger Freeman, the minister who chairs the cabinet sub-committee co-ordinating beef policy, said: "We don't want a detailed timetable that inevitably by a certain date certain things must happen."

His comments appeared to be at odds with a statement by Mr Malcolm Rifkind, the foreign secretary, and prompted fears among the Eurosceptics that Mr Major was backing down less than a week after launching the non-cooperation initiative. On Sunday, Mr Rifkind suggested that a timetable would encourage the government to restore normal relations. "The second requirement [after lifting the ban on beef derivatives] is to put into place an agreed strategy."

Mr John Redwood, champion of the Conservative party's Eurosceptic right, urged Mr Major to stand firm. "Farmers and people in the meat business would expect a timetable for the remaining threat to their jobs and businesses to be lifted before the government resumes normal co-operation with Europe."

Editorial Comment, Page 21

Siemens and Ford to enlarge plastic car parts venture

By Peter Marsh in London

Siemens of Germany and Ford of the US are preparing for a £20m ($30.4m) expansion of their UK joint venture to make engine parts from plastic composite materials. The project was spawned by British research 15 years ago on novel types of plastic used in several products including tennis racquets.

The programme by the two companies is expected to create about 200 jobs over the next four years. It is part of a plan by Siemens, which has the majority stake in the venture, to become world leader in making plastic engine manifolds (air inlets) and fuel systems for vehicles.

Plastic engine parts are being studied by large vehicle makers because they are less expensive in mass production than conventional aluminium parts. They can also cut fuel use by contributing to lighter vehicle weight. While only a small minority of new cars worldwide is now fitted with these components, some industry analysts think at least a third of all new vehicles will be fitted with plastic manifolds by 2000.

Siemens and Ford are capitalising on work by Dunlop, the UK tyre and rubber goods company which hit severe financial problems in the mid 1980s, in researching novel glass-reinforced plastic composite materials used in sports goods and other products. Most of this work was done in the early 1980s, some of it government funded through research grants.

The technology has been developed by Siemens and Ford to form the core of a company called Siemens Automotive Systems which is making some 400,000 plastic manifolds a year. The manifolds are for use by Ford in its European car plants as well as by other European carmakers whose identities the Siemens/Ford venture declines to reveal.

Mr Philip Cousins, managing director of Siemens Automotive Systems, said that according to current plans the company would spend about £20m by the end of the century on expanding annual output from about £12m last year to about £60m by 2001.

The investment, which has yet to be approved by either company, would probably add 200 jobs to the 200 already employed at Telford in the English Midlands. The two partners have already put about £20m-£25m into the venture in the form of new equipment.

Ben & Jerry's ice cream is the biggest account won so far by Harry Goode, a farmer who decided to combat the decline in market prices for beef cattle by using some of his animals to carry advertisements. Mr Goode's herd grazes next to the M42 motorway in the English Midlands

Irish import curb criticised

By John Murray Brown in Dublin

Baroness Denton, the British minister responsible for the Northern Ireland economy, yesterday criticised the government of the Republic of Ireland for using the European ban on UK beef exports to keep Northern Ireland poultry shipments out of the republic.

The Northern Ireland economy is particularly vulnerable to the "mad cow" crisis, with farmers depending on exports for 80 per cent of beef sales. The minister said Northern Ireland companies had responded either by diversifying out of red meat production, or by importing beef from the republic for processing in the north. She complained at a conference in Dublin on cross-border co-operation that police in the republic had turned back a number of trucks carrying poultry and lamb products from the north.

She accused the authorities in the republic of "super caution," but insisted that this should not detract from the achievements of cross-border co-operation. The two governments aim to increase two-way trade to £3bn ($4.56bn) a year from the current £1.2bn. The conference comes ahead of the planned all-party talks on Northern Ireland's political future.

The incidence of BSE is much lower in Northern Ireland than England, and an effective disease-tracing system is in place. Local politicians have called on the British government to designate Northern Ireland products as distinct from the rest of the UK.

To the amusement of southern politicians, some Northern Ireland farmers have expressed the wish that beef from the region should be treated as Irish beef in order to exempt it from the EU ban.

Another food scare may bruise ministers

By James Harding

Another food safety scare threatened to entangle the government yesterday as ministers confirmed that leading brands of formula baby milk contained potentially harmful chemicals but refused to name the products concerned.

The health department sought to reassure parents that "there was no cause for alarm" because the level of phthalates – chemicals that could impair fertility – found in nine brands of baby milk was below official safety levels. Mr Tim Boswell, a junior agriculture minister, using the official formulation used in the case of British beef, said: "We do not think there is a risk in the normal sense of that word for babies".

However, he admitted that the government would be "aiming to reduce levels of phthalates across all brands." Ministers refused to name the brands tested - all of which were found to include traces of the chemical found to have damaged sperm counts in animals - because the information is "commercially sensitive".

However, they confirmed that brands made by the four leading baby milk makers had all been tested and found to contain phthalate traces. Government officials said those four leading manufacturers were Cow & Gate and Milupa (both owned by Nutricia, a Dutch baby food business), SMA (owned by Wyeth, a US company) and Farley's (a baby food business owned by Heinz).

Milupa reminded consumers that all brands tested were affected, but that "we will continue to take the advice that is given by the government scientists that there is no need to stop feeding your baby any of these brands." No comment was available from the other companies.

Parents and doctors regretted that ministers would not disclose the names of the affected brands. Dr John Chisholm, deputy chairman of the British Medical Association's committee of family doctors, said: "Mothers will find this very frightening."

US-built Chrysler will undercut European rivals

By John Griffiths in London

The launch in Britain next week of the Chrysler Neon will mark the first serious challenge to the UK's car pricing structure from a family car made in north America.

The Neon is intended to be the first of a series of Chrysler models to be imported by Inchcape-owned Chrysler Jeep Imports UK. It will undercut its main rivals by £1,000 ($1,510) to £2,000. Mr Alan Pulham, director of the National Franchised Dealers Association (NFDA), believes the Neon will set a new "price yardstick" in the medium-sized family saloon market.

The NFDA, part of the Retail Motor Industry Federation, represents most of the UK's total of more than 6,000 franchised dealers. It recently sent a team to north America to investigate prices of new cars in the US, which are on average 30 per cent to 40 per cent lower than in Europe. It concluded that European prices were unwarrantedly high and that manufacturers could cut prices by up to a quarter by simplifying model ranges, streamlining distribution and rationalising manufacturing processes.

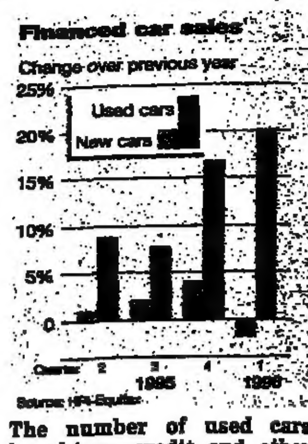
The NFDA has argued that high prices, not a lack of consumer confidence, lie behind the current depressed sales of new cars to private buyers in the UK.

The Neon, built at Chrysler's Belvidere plant in Illinois, is smaller overall than a Ford Mondeo or General Motors Vectra. But because of its north American "cab forward" design – in which the windscreen is mounted further forward than most European models – interior space is similar to the Vectra's.

The cheaper LE model will cost £11,595 in Britain and the air-conditioned LX model £12,995. Chrysler claims that a 1.6 litre Ford Escort equipped to the same standard as the Neon would cost £14,300.

The Inchcape importer is spending £3m on a TV advertising campaign to launch the car, which will be sold through a network of around 100 dealers. The Neon will be the first Chrysler-badged vehicle sold in Britain for nearly 20 years.

The company said at the weekend it expects to sell 1,500 Neons during the rest of this year, rising to 3,000 in 1997. "However, if demand for the car really takes off, we'll have no problem meeting it", said a company spokesman. The Belvidere plant has the capacity to build 330,000 Neons a year in both left- and right-hand drive forms. The car is also being built in Mexico and Venezuela, so that "there are no problems of availability," added the Chrysler spokesman. "I don't know of any north American carmaker afraid of volumes."



The number of used cars bought on credit and other forms of "financed sales" reached its highest level last month and was 31 per cent higher than a year earlier. But similar "financed" sales of new cars rose by much less, reinforcing the claim of dealers that many customers no longer consider that new cars offer value for money.

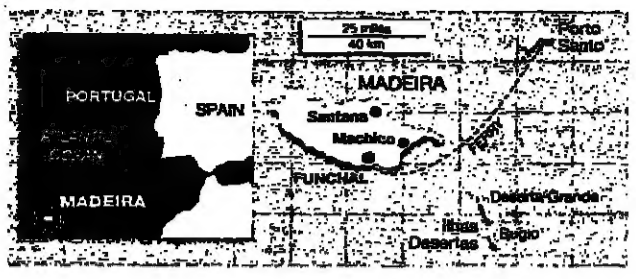
Figures to be published this week by HPI-Equifax, the motor trade statistics organisation, show used cars bought on credit totalling 126,180 last month compared with 96,371 a year earlier.

The number of new cars bought on credit last month, 95,697, represented a 16.6 per cent rise on the previous April. Sales of new cars on credit were 1.9 per cent down in the first quarter.

MADEIRA

Ocean outpost aims for the mainstream

Portugal's idyllic *Atlantic province* is trying to transform itself into an attractive focus for international investors, write David White and Peter Wise



KEY FACTS

Area:	741 sq km
Population:	253,000
Status:	autonomous region of Portugal
Language:	Portuguese
Currency:	Portuguese escudo
Location:	978km southwest of Lisbon,600km west of Morocco
Regional president:	Alberto Joao Jardim
Ruling party:	Social Democratic Party (centre right)
GDP 1995:	Es.258.89bn
Growth rate 1995:	3.4%
Regional debt end-1995:	Es.129.97bn
Unemployment end-1995:	5.2%
Inflation 1995:	4.4%

Source: regional government

Madeira strives to become a centre for services and industry which generate more jobs then those found in the traditional cottage industries *Picture: Huber*

Associations with the past and an air of old-fashioned gentility are still part of what Madeira trades on as a tourist destination, with its equable sub-tropical climate, lush mountains and lack of rowdy beaches.

But, out in the Atlantic, nearer Africa than Europe, no longer a stopover on great trade routes, Madeira today is intent on promoting a less languid and more forward-looking image.

Many in Portugal's southerly island outpost would be happy to see it written about for once without the routine references to Winston Churchill, wintering aristocrats or the British merchant families who used to dominate its economy. It wants to be a business centre, with new service and industrial activities capable of creating the jobs that tourism and cottage industries cannot provide.

Madeira, an archipelago with two inhabited islands and a population of around 250,000, remains a poor place visited by the well-to-do. There are many more Madeirans, or children of Madeirans, in South Africa and Venezuela than in the islands themselves. Per capita income is less than half the European Union average.

For two decades, it has been an autonomous region of Portugal, entitled to use the taxes it collects and run its own services except for police and justice, and for the past decade, with Portugal, part of the EU.

The combination of self-government and a stream of EU money – twice the islands' proportional share of EU aid to Portugal – has brought new and better roads, water supplies and dramatic improvements in education and other services. Inland areas, now less inaccessible, are dotted with health clinics. According to the regional government, illiteracy has fallen from 15 per cent five years ago to about 10 per cent and should disappear by 2004.

Madeira is set to receive Es220bn ($1.4bn) in EU support funds in the 1995-99 period, more than twice as much as in the previous five years. This includes backing for a $500m airport extension project (building anything horizontal is a challenge in Madeira) which promises to ease its great transport-cost handicap.

Growth has consistently been higher than in the rest of Portugal or the EU as a whole, at an average of more than 4 per cent in the last five years, avoiding the recession of 1993, and promising to exceed 6 per cent this year.

A combination of progress and home-grown conservatism has placed the regional president, Mr Alberto João Jardim, in a virtually impregnable position. His forceful personality has done much to keep Madeira – or put it – on the map. In office since 1978, he is one of Europe's longest-lasting elected leaders.

Portugal's centre-right Social Democratic Party (PSD), in

> Public works have become a much bigger sector of the economy

which he figures prominently, lost power nationally to the Socialists last year and has surrendered ground on Funchal, the island capital where half the population live. But in rural Madeira political loyalties are as strongly entrenched as the farm plots cut into the steep mountainside. Mr Jardim is set to stand again in October – for the last time, he vows – and doubtless be re-elected, as he has been the last four times.

However, the regional government's approach to development does not go uncontested. Critics on the left and right argue that almost all the growth has come from public spending, fed by aid and the accumulation of a Es130bn regional debt, and that the record for creating sustainable employment is poor.

Over the last 20 years the share of the economy represented by public works is reckoned to have increased from 5 to 12 per cent, while that of manufacturing has declined. An industrial free zone and a science and technology park are all very well, they say, but several of the main industrial investors have simply shifted location to take advantage of tax breaks. Madeira enjoys a low jobless level of 5 per cent, and large-scale emigration has halted. But problems loom for the new generation of young job seekers.

"We cannot design the future of Madeira without the public sector," retorts Mr Jardim. "I am not a Socialist. But understand that the public sector is absolutely necessary to maintain a low unemployment level." He accepts that finding jobs for the better-educated new generation will become "a very difficult social and political problem". Madeira, he says, has had to import unskilled labour for works projects, but does not have enough jobs for people with degrees.

His axiom is: "We want to sell services". His reasoning is simple. Exporting intelligence is less expensive than, say, bananas because "you don't pay for space on the boat".

The push for an international business centre owes much to the dynamism of Mr Francisco Costa, chairman of Madeira Development Company (SDM), a venture set up with the regional government as minority shareholder. The project covers the industrial free zone, a shipping register and the establishment of financial and other services. Licences started being issued eight years ago. Thirty industrial ventures are either operating or in the process of being set up, creating more than 1,000 jobs, and almost as many in the services sector. Altogether, more than 1,800 companies have registered.

"Young graduates can find international opportunities that 10 years ago were not available," says Mr Costa. Although Madeira has gone

> It is feared that more EU aid could be channelled eastwards

into direct competition with major offshore centres, emphasis is placed on the fact that all companies in the international business centre have EU resident status and are fully within the Portuguese legal system. The favourable tax conditions, authorised by the European Commission as a form of state aid from Lisbon, are due for review by Brussels in 2000. Mr Costa says the special conditions are a prerequisite for overcoming Madeira's backwardness. He says that they will need to be continued not only beyond 2000 but certainly beyond 2011, when the current tax regime expires.

For all its remarkable vegetation, in a landscape that enthralled Victorian artists, Madeira's natural resources are very limited. Its most famous product is a wine that was trendy in the 18th century but is produced in quite small quantities most of which is sold cheaply to bulk buyers. The rest, like the embroidery which occupies as many as 30,000 islanders, is bought mostly by tourists. The banana business, protected during the initial EU transition phase, is in trouble, and attempts at agricultural diversification have proved impractical. Tourism, although growing, is also limited. With only one proper beach, on the island of Porto Santo, Madeira could not compete with the Canary Islands even if it wanted.

"We have no doubts – jobs will be the battle for the future," says Mr Paulo Fontes, the regional government's finance chief. All plans are pegged to the hope that EU support will continue beyond the present framework package. "Madeira does not have the resources to generate its own economic development. The support cannot stop in 1999," he says.

With Portugal in the throes of a political argument over plans for limited regional devolution on the mainland, Madeira and the other island group, the Azores, face the prospect of increased competition from other needy mainland regions.

The bigger question, however, is the impact on Portugal of the EU's expansion to eastern Europe. "The EU must ensure that peripheral regions do not suffer as a result of opening to the east," Mr Jardim insists. For all the advances and new projects of recent years, nobody in Madeira would say it was anywhere near ready to forgo significant EU assistance.

II MADEIRA

■ ECONOMIC DEVELOPMENT: by Peter Wise

In the empire of Europe

Aid from Brussels is vital but is not the only factor in safeguarding Madeira's future

In the main square of Funchal, children wearing German lederhosen, Spanish mantillas and British bowlers are spending cardboard euros as they playing at shopping games. It is Europe Day in Madeira and the mood is as *communautaire* as if it were in the centre of Brussels.

Since Portugal joined the Common Market in 1986, the mood in Madeira has been transformed both outwardly and inwardly. EU funds are narrowing the economic gap between the island and Europe and at the same time strengthening the aspirations for the future.

Madeira is even moving physically closer to continental Europe – a $500m EU-financed airport runway extension, built on pillars out into the Atlantic, will allow larger aircraft to land from 1999. It will shorten flying times and pave the way for scheduled flights from Europe and the US. New roads and port facilities are also cutting cargo transport times and costs.

"My country is Europe," proclaims a sign outside the office of Mr Alberto João Jardim, whose election victories over a period of 20 years as head of the regional government owe a good deal to his success in negotiating large transfers of EU funds. It is an apt motto for a leader whose government receives the equivalent of a quarter of its total expenditure from Europe.

Brussels will channel Es220bn ($1.4bn) into Madeira from 1994 to 1999, having already transferred Es91bn over the previous six years. This represents almost Es150,000 per capita a year, about three times the level of per capita aid for Portugal as a whole. The high level of aid has bred a dependency that helps explain the apprehension readily discernible beneath Madeira's fervent commitment to Europe.

The big question is for how much longer will the EU aid continue to flow? When the current funding programme expires in 1999, the EU will be expanding eastwards. Aid priorities in Brussels will have changed and competition for funds will be intense. Any sharp slow down in transfers to Madeira would threaten jobs, which are heavily concentrated in the public sector, and abruptly stop the catching-up process.

Madeirans learn to play their cards right — Picture: Mike Arron

"What exactly will happen after 1999 is not yet clear," says Mr Paulo Fontes, the finance secretary in the regional government, "but we are confident of the EU's continued support. Cutting back aid would interrupt a cycle of economic development that is essential for Madeira to achieve a standard of living on a par with the rest of Europe."

EU aid had been driving the island's economy towards that goal at a rapid pace. Gross domestic product growth, forecast to climb from 3.4 per cent in 1995 to 6.7 per cent this year, has been consistently higher than in Portugal and the EU as a whole. Since 1976, GDP per capita has risen from 24 to 45 per cent of the European average and from 40 to 70 per cent of that in mainland Portugal.

Mr Jardim, pointing out that the average GDP per capita of eastern Europe is today only 26 per cent of the EU average, is keenly aware of the tough competition for EU aid. But he is confident not only that the European Commission will approve a third six-year aid package that covers the island but that permanent support for the so-called ultra-peripheral regions such as Madeira will be written into a revised European Treaty.

"Outlying regions such as ours cannot be allowed to suffer as result of the EU's expansion to the east," he says. "There will be problems if the benefits of enlargement in terms of new markets and business opportunities accrue only to the most developed countries. That would destroy the idea of social cohesion that is the essence of the EU." It is an argument likely to be made with increasing vehemence over the next three years.

The importance of EU funds is most evident in the public works sector, where investment in new infrastructures has created most of the new jobs that have kept the unemployment rate, currently about 5.2 per cent, at less than half the European average over the past five years. Construction and public works account for about 12 per cent of both GDP and employment in Madeira. Public administration and social services, including health and education, which have expanded rapidly due to EU aid, account for a similar share of the economy.

Critics of the regional government believe that industry, particularly private enterprise, has been overlooked in this concentration of spending on the public sector. "All economies that engage in big public infrastructure programmes without a corresponding investment in productive activities end up facing serious economic and social problems," says one businessman. But the regional government replies that a third of EU funds have been channelled to private-sector companies.

The jobs created in the public sector would be those most under threat if the funds stopped flowing. But Madeira's recent development has also had a deeper, less tangible effect with far-reaching implications for the future. As living standards improve, far fewer Madeirans want to leave and emigration, for long the only hope of enrichment for most islanders, has virtually come to a halt.

At the same time, improvements in education are producing school-leavers and university graduates with better skills and qualifications – and much bigger ambitions. "I meet our university students every year and I'm totally frank," says Mr Jardim. "I tell them there won't be jobs for them all in Madeira, but they all want to stay."

The island's biggest challenge is "the battle for jobs," says Mr Fontes. "Our goal is to create between 17,000 and 20,000 new jobs by 2005." Not only more jobs, but better jobs for young people with higher qualifications and aspirations.

Madeira's traditional sources of employment offer limited scope for creating such jobs. The growth of tourism, which accounts for about 18 per cent of GDP and 9 per cent of employment, is being restricted to preserve quality. The regional government plans to limit the increase of the island's 17,000 hotel beds to about 20,000 over the next four years. And, as Mr Fontes says: "Even doubling the number of beds would not double the number of jobs in tourism."

Employment in agriculture is on the decline. It currently absorbs about 20 per cent of the active population but contributes only 13 per cent of GDP, down from 27 per cent in 1976. The authorities are trying to ensure that fewer farmers will produce more by focusing on high value crops such as flowers and exotic fruits.

The potential for manufacturing is limited by the small size of the local market and the handicap of transportation costs. The industrial free trade zone is attracting a number of foreign manufacturers and the services hub and offshore financial centre of the International Business Centre have also brought a fresh source of employment to Madeira over the past decade. But their contribution to the more than 17,000 jobs the regional government plans to create will be relatively limited.

Where, then, will the jobs come from? The government believes the answer lies in adapting Madeira's long-established vocation for services to the 21st century. "Business today depends less and less on the physical transportation of goods," says Mr Fontes. "Madeira can take advantage of its location, attractive environment and modern telecommunications to act as platform for a wide range of business, financial and technical services whose essential ingredient is creativity and imagination."

The IBC is one of the main elements in this strategy, together with a new congress centre and a science and technology park, that is to focus on telecommunications, astronomy, marine biology and the environment.

Mr Jardim paints his vision of a new Madeira in forthright style. Saying the future depends on "personal creativity", he adds: "We want to sell services. It's more expensive to export bananas than to export intelligence, because you don't pay for space on the boat."

Unemployment changes (per cent of labour force)

	1986	1990	1995
Madeira	9.0	5.9	5.2*
Mainland	8.4	4.7	6.9*
EU average	10.7	8.4	11.6†

* third quarter of 1995. † provisional

REAL GDP GROWTH

	1991	1992	1993	1994	1995	1996
Madeira	5.0	5.1	4.6	2.1	3.4	6.7
Portugal	2.2	1.5	-1.0	1.1	3.0	3.2
EU	1.5	1.1	-0.3	1.6	2.5	3.1

Source: DRE

INFLATION LANDMARKS

	1985	1990	1995
Madeira	20.8	10.3	4.4
Mainland	19.3	13.4	4.3
EU	5.8	4.7	3.0

Source: DRE

Value of 4th quarter GDP (in Esc. millions and percentages)

Sector	1981	(%)	1991	(%)
Agriculture/fishing	11.345	19	11.552	13
Mining	.577	1	1.035	1
Manufacturing	8.331	14	6.762	8
Power, gas, water	2.274	4	4.521	5
Building and public works	8.556	14	12.373	14
Commerce, restaurants, hotels	11.938	20	15.610	18
Transport, communications	4.734	8	9.003	10
Banks, insurance, property	2.227	4	10.603	12
Social, personal services	9.827	16	17.258	19
TOTAL	59.853	100%	88.717	100%

Source: Regional Planning Directorate

■ TOURISM: by David White

Numbers are limited

Tourism is mainly middle-aged, but the high summer also brings a younger crowd

Just in case Madeira should forget where its main income comes from, a small corner of Funchal has been baptised Praça do Turista, or Tourist Square, a prosaic contrast with the quainter and sometimes unfathomable street-names of the island's capital.

This western side of Funchal contains its six five-star hotels which give the city its flavour as a resort.

"We've built ourselves into a niche market," says Mr Dionisio ("Denis") Pestana, a South African-educated businessmen, son of an emigrant from Madeira, who has build up what is now the biggest Portuguese hotel chain, with interests on the mainland and in Mozambique.

His base at the Madeira Carlton, formerly the Sheraton, looks across at the tone-setting Reid's Hotel and its cliffside gardens. The tourist authorities insist there is more to Madeira than that, but are in no doubt that they are "principally selling quality".

Madeira is trying to diversify its tourism but does not see itself as a mass market. Although it can claim to be one of the oldest tourist destinations, the main island did not have an airport until 1964, and in the tourist boom that followed found it could not compete with the beach resorts of the Mediterranean, the Algarve or the Canaries. "Maybe it's a good thing," muses Mr Pestana.

The extent of the regional government's ambitions is to increase the number of hotel beds from around 17,000 at present to 20,000 at the end of the century. This would still be only 5 per cent of the tourist beds currently available in the Canary Islands, Madeira's nearest neighbours 400km away.

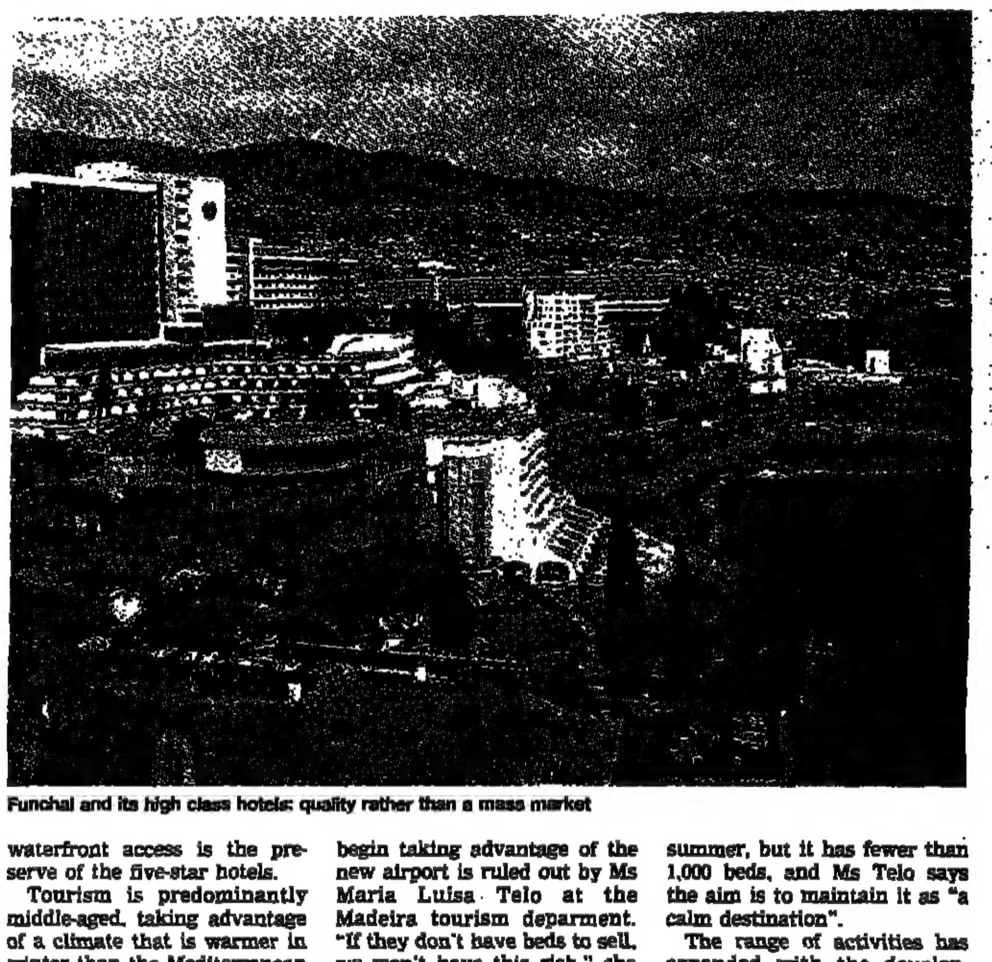
Even when the hotels are full and a cruise ship is in port, Funchal is hardly teeming. On the other hand, having started as a winter destination, Madeira enjoys a year-round tourist trade, with the exception of slack periods before and after Christmas.

It is the kind of place where nothing untoward is likely to happen. By the windows of the regional president's residence, tourists are free to wander round in the gardens. There are a few pubs, but no baked-beans-and-chips restaurants. And the Spanish honeymooners who said they were really keen on night-life had obviously come to the wrong place.

Mr Pestana does intend, however, to liven up the morgue-like atmosphere of the casino, taking advantage of new gambling laws and creating "a place where you lose your money but at least have a good time".

The handicaps of Madeira are transport costs, shortage of building space and lack of beaches. The main island, dizzily mountainous and lush, has only one natural beach, on the eastern side, and that has black sand. The real beach, 9km of it, is on the other inhabited island, Porto Santo, 15 minutes away by air or an hour and a half by boat.

A big effort is being made to compensate by promoting all kinds of water-sports. But the truth is that in Funchal, where three-quarters of the hotel accommodation is located, waterfront access is the preserve of the five-star hotels.



Funchal and its high class hotels: quality rather than a mass market

Tourism is predominantly middle-aged, taking advantage of a climate that is warmer in winter than the Mediterranean and cooler in summer, although the high summer also brings a younger crowd. It has also always been predominantly British – up to now. But last year German visitors took top place for the first time, among a record total of 530,000. Madeira also finds a good market among the French, Swedish, Dutch and Belgians. But Germans, mainland Portuguese and British last year made up 64 per cent of all holidaymakers.

A new dimension will come to the tourist trade with the extension of the airport, a $500m project due to be finished in 1999, opening the way for wide-bodied and long-haul aircraft. This not only promises competitive charter rates but also new markets: the US, and also Latin America and South Africa, where there are large Madeiran emigrant communities.

This means there is only a short time left to appreciate the original Funchal airport experience. A starboard window seat is a good vantage point. The aircraft flies well off the coast, as if going somewhere else. Then it banks sharply to the right. At this point you are flying straight into a lush, green, craggy, cloud-topped mountainside. At the last moment the aircraft makes another sharp right turn to sneak in on the runway.

It is no wonder that, having landed safely, people tend to stay awhile, many of them for three or for months at a time.

The danger of Madeira slipping to a more down-market image once the tour operators begin taking advantage of the new airport is ruled out by Ms Maria Luisa Telo at the Madeira tourism deparment. "If they don't have beds to sell, we won't have this risk," she says.

The nature of tourism, however, is already shifting with the decline in the relative importance of British custom. German and Scandinavian visitors are less inclined to lounge around their hotels, keener to explore the interior of Madeira island, which is two-thirds national park.

Walking tours are increasingly popular, with routes following the "levadas" or irrigation channels dug into the steep slopes. Hotels now promote the "levadawalk".

At the same time, Porto Santo is being developed as a "complement" to the main island. Although it, too, is of volcanic origin, it is very different, drier and less mountainous, with a good airport that has twice-weekly direct scheduled connections with Lisbon. Many Madeirans go in summer, but it has fewer than 1,000 beds, and Ms Telo says the aim is to maintain it as "a calm destination".

The range of activities has expanded with the development of big-game fishing in the deep waters surrounding Madeira – it has become a centre for marlin fishing – and a second, spectacular 18-hole golf course, Palheiro Golf, at an altitude of 600m above Funchal, which is linked with six associated hotels.

A big emphasis is also being placed on developing tourism outside the immediate region of Funchal – a place which has its charms, especially at this time of year with the jacaranda trees in blossom – but which is on a particularly crowded strip of coast. Country houses are being converted into hotels and bed-and-breakfasts, going back to the origins of Madeira tourism when families would rent *quintas*.

Most of the island remains largely unspoilt. Roads for getting around – and around is the operative word – have improved, but it is challenging geography for road-builders. Minor backroads in the dark are probably not recommended for drivers of a nervous disposition. On the other hand, the variety of vegetation, scenery and climatic conditions is prodigious.

Take, for instance, the northern coast road, cut into the cliff, which runs westwards from the well-preserved town of São Vicente to windswept Porto Moniz. When it rains enough, this means driving through waterfalls. There are not many places you can do that.

Tourism by country of origin and hotel nights (%)

	1995	1994
Germany	27.9	24.8
UK	24.9	25.9
Portugal	12.4	14.2
Sweden	6.2	5.5
France	4.5	3.7
Holland	3.3	2.7
Belgium	3.1	3.0
Spain	2.4	4.3
Others	16.3	15.9
Total overnight visitors	530,441 (+13.8)	466,040
Total hotel nights	3.97m (+15.1%)	3.44m
Hotel receipts (escudos)	27.80bn (+18)	23.57bn

Source: Regional Tourism Department

FINANCIAL TIMES
COMPANIES & MARKETS

Tuesday May 28 1996

Facia investor devalues stake

By Norma Cohen in London

Murray Johnstone, the Glasgow-based investment management company which has a 12.5 per cent stake in Facia, the UK high street retailing chain, has written down the value of its investment to "near zero" in the accounts.

Murray Johnstone, which holds most of its investment in an unquoted offshore trust, Murray Johnstone LBO Fund LP, purchased shares from the administrators of Sock Shop in 1990.

Its Murray Ventures investment trust also holds a stake and the fund manager has generally followed conservative accounting treatment for its unquoted investments.

It has a director on the board of Facia, the UK's second largest privately held retailer, but its convertible preference shares give it no voting rights.

The investment manager is understood to be keen to sell its stake for cash if Facia is successful in attracting an investor in the company. Facia's management is in talks with Texas American Group, a small Nasdaq-quoted US company, about a reverse takeover which would result in a cash injection.

Facia said it had no cash flow problem currently but it was seeking capital to pay for refurbishment of its high street shops which include brand names such as Sock Shop, Freeman Hardy Willis and Saxone, the shoe shops.

However, its lenders, United Mizrahi Bank, are understood to have told the company that they must find a new bank when the current loan facility expires at the end of this year.

Facia's efforts to raise new cash have been hampered by its failure to file a single set of audited accounts at Companies House since its formation in July 1994.

It has been given a new deadline of July 1 to provide accounts or face a fine.

Mr Stephen Hinchliffe and Mr Christopher Harrison, two directors, face disqualification by the Department of Trade and Industry in connection with the collapse of a company they had controlled shortly before its failure.

Hyundai Motor opens door to alliances

S Korean group wants greater co-operation with other carmakers

By Haig Simonian in Seoul

Mr Mong-Gyu Chung, the new chairman of Hyundai Motor, said South Korea's biggest carmaker needed to act less independently in order to strike alliances with other vehicle producers to develop new models.

In an interview, Mr Chung, who took over from his father in January, cited Hyundai's recent decision to negotiate to buy diesel engines from Peugeot of France as a sign of the change in thinking.

"I think this is the initial step," he said. "We don't just want to buy components. We want deeper relations with other manufacturers...I think we're going to continue this."

The engines will be used in Hyundai's mid-sized passenger car, called the Lantra in Europe, the Avante in Korea and Elantra in North America. The diesel version will be sold primarily in Europe, where demand for diesels is highest. Diesel engined cars, which are extremely unpopular in Korea, could lift Hyundai's European sales by 10 per cent to 15 per cent, the company estimated.

Hyundai's apparent readiness to open the door to greater co-operation with other car companies comes as Korea's carmakers brace themselves for the debut in early 1998 of Samsung Motors, the vehicles subsidiary of the powerful electronics and trading group.

The Korean motor industry is also concerned about what it claims is the accelerating penetration of imported luxury cars.

Mr Chung said Hyundai had just signed an agreement with Mitsubishi of Japan for a feasibility study into the joint development of new types of cars which were complementary to the two manufacturers' existing ranges. Hyundai retains close links with Mitsubishi, which helped to provide its carmaking technology.

Mr Chung said Hyundai and Mitsubishi would also work together to develop a successor to their Grandeur and Debonair luxury models as well as new V6 and V8 engines.

Mr Chung, who at 34 is one of the youngest family members to take over part of a leading Korean *chaebol* (conglomerate), said he was "not in a hurry" to strike co-operative deals. He said he was still settling into the chairman's job and would only start getting to know top executives from other big carmakers later this year.

Apart from greater collaboration and specialisation, Mr Chung said Hyundai Motor's main priority was to improve quality.

"Quality at the moment is the biggest issue for us." While exterior styling had improved considerably, further steps were necessary on chassis, engines and transmissions to produce "world class" vehicles, he said.

Mr Chung said the company had increased spending on research and development to improve the noise, vibration and harshness of its cars – the three key ride and passenger comfort criteria in the motor industry.

Observer, Page 21

INSIDE

Hollinger

Hollinger, the publishing group controlled by Mr Conrad Black, is poised to shake up Canada's newspaper industry after a series of acquisitions culminating in the purchase of a controlling 41 per cent stake in Southam, the country's biggest newspaper chain.
Page 26

Halifax

The UK's Halifax Building Society, which plans to float next year, is expected to announce this week that it has appointed the Royal Bank of Scotland to run its share register. The deal would put the Royal Bank, which is the UK's second largest share registrar, in charge of the largest single extension of share ownership in Britain.
Page 24

Faces

Mr Pedro Aspe (left), Mexico's finance minister from 1988 to 1994, is joining the strategy board of Caspian Securities, the emerging markets brokerage house. Mr Aspe is the latest in a line of high profile arrivals at Caspian, where he will sit alongside Mr Robert McNamara, the former US defence secretary, and Mr Wilfried Thalwitz, former senior vice-president at the World Bank, among others.
Page 28

Fund Management

After two years in which hedge funds' performance has disappointed, the tide seems to have turned in 1996. The Van Global Hedge Fund index rose 9.3 per cent in the first four months of the year, outstripping the 7 per cent achieved by the S&P 500 index. "April was an explosive month for hedge funds worldwide," said Mr George Van, chairman of Van Hedge Fund Advisers.
Page 28

Analysts expect turmoil and volatility to remain a feature of the LME for the next two months

Bulls and bears battle it out in copper's squeezed market

Yasuo Hamanaka is perceived to have such a great influence on global copper trading that speculation that he was to leave his job at Sumitomo Corporation in Japan helped trigger big sales of the metal on the London Metal Exchange.

It was said Sumitomo had become tired of being mentioned every time something untoward happened in the LME's flagship copper market and that the Japanese group in future would concentrate solely on trading physical metal. The prospect of Sumitomo unwinding all its futures contracts contributed to the panic in the market last week.

There were, of course, other factors that made the market nervous and sparked an unprecedented 15 per cent fall in the copper price in four trading days. Not the least was the fact that most analysts expect a big surplus of copper, the most heavily traded non-ferrous metal, to start building in the second half of this year. This should push stocks up and prices down.

Nevertheless, analysts expect volatility and turmoil to remain a feature of the copper market at least until the end of July because it remains in the grip of a ferocious technical squeeze.

In spite of looming surpluses, prices have remained at a level where producers can make good profits. Prices have been buoyed by strong demand, particularly from developing countries. During their development stage, countries have a heavy demand for copper for such essentials as electric wire and pipe for plumbing.

As is often the case, the market speculation about Mr Hamanaka was only partly correct. Sumitomo did confirm he was changing his job. Whereas previously he was in charge of copper trading, his role had been widened and he had become assistant to the non-ferrous metals division's general manager. From now on he would handle big metal projects. This does mean, however, that Mr Hamanaka will no longer supervise Sumitomo's day-to-day copper operations.

Mr Hamanaka insisted there would be no change in his group's trading policy.

His powerful position in the copper market flows from the fact that Sumitomo is one of the world's leading traders of physical copper, handling 500,000-750,000 tonnes a year for clients, mainly in Asia but increasingly in Europe. Like many other Japanese corporations, Sumitomo is forbidden to speculate in commodities markets. Nevertheless, it does hedge its copper market dealings by trading futures and options along with buying copper for immediate delivery. In this way, it exerts a tremendous influence on the market.

Other traders say Mr Hamanaka rarely winds up on the wrong end of a deal and he has consistently made large profits for Sumitomo. How much he made can only be guessed at. However, Mr Ashley Levett and Mr Charlie Vincent, the owners of Winchester Commodity Group, a broker Sumitomo used for its copper dealings in London until recently, each collected £15m ($22.5m) in pay and bonuses for 1994.

Mr Hamanaka's powerful position in the copper trade became particularly apparent during a technical squeeze on the LME in 1993. At the time, he admitted Sumitomo had control of a great deal of the exchange's copper stocks but denied any manipulation was going on. Sumitomo, he pointed out, had to guarantee a smooth supply of metal to its customers with a type of just-in-time system designed to minimise stocks and risks, regardless of price or supply disruptions. His group had been buying copper because it had received some large orders from big customers.

Nevertheless, after the 1993 squeeze, Credit Lyonnais Rouse, part of the French banking group, which acted as LME clearing broker for Sumitomo, among other clients, apologised for its part in the squeeze and paid £100,000 towards the LME's costs.

The copper business is still suffering from the repercussions of that squeeze. Codelco of Chile, the world's biggest copper producer, suffered trading losses of about $170m. While Codelco admits that management failed to supervise its chief trader properly, the group is suing Sogemin, part of Union Minière of Belgium, for the return of "excessive commissions" and other allegedly improper payments and suggests that more writs will follow against brokers in London, New York and elsewhere. Sogemin says it will defend itself vigorously against these allegations.

China's biggest organisation, Citic, also suffered substantial trading losses in 1993 and for a time refused to pay its debts of $40m. Some tense negotiations with 14 LME brokers followed before Citic paid up.

In the present squeeze, which as in 1993 partly involves LME stocks of physical copper being tightly held by a few organisations with deep pockets, traders suggest that US hedge funds are on the receiving end. Some say Mr George Soros's Quantum fund is short of 100,000 tonnes of copper but, as usual, the fund refuses to discuss market speculation about its activities.

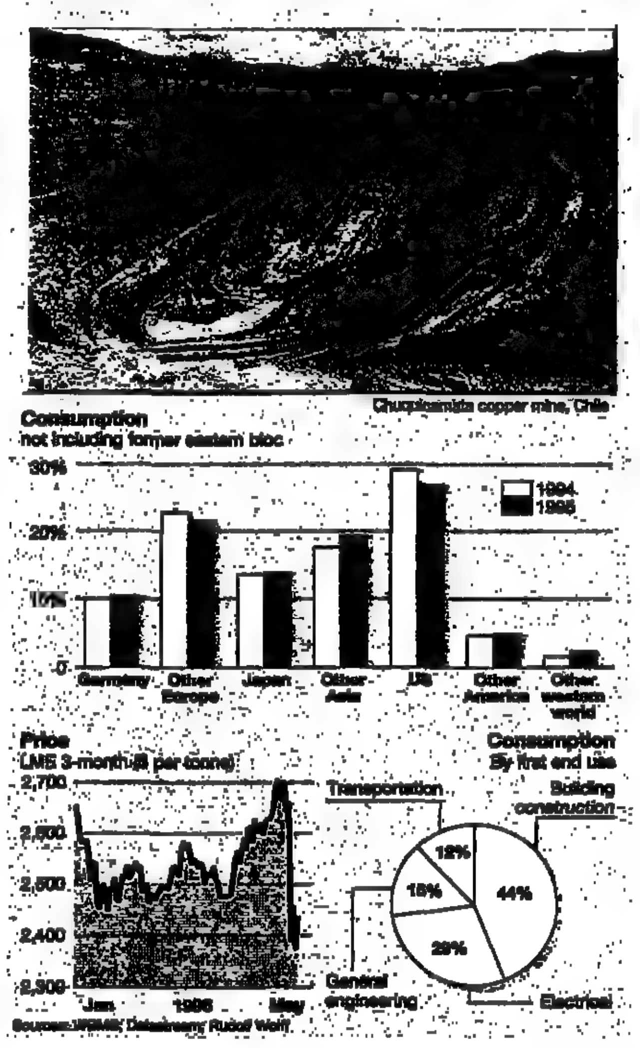
The battle between copper bulls and bears – which last Wednesday saw the metal's price drop by $100 a tonne in early LME trading, only to regain all the lost ground by the end of the day – is made more complex by the squeeze which is forcing buyers to pay a premium for copper for immediate delivery. This premium, or backwardation, between spot copper and metal for delivery in three months, ranged between $10 and $130 a tonne last week.

The LME executive carefully monitors its markets via confidential reports supplied by brokers. It has taken steps to relieve some of the impact of the copper squeeze and has virtually unlimited power to take action to ensure its markets remain "orderly".

But orderly does not necessarily mean short of volatility. And volatility is likely to be a feature of the copper market until stocks have been built up to more comfortable levels and look certain to go on rising for some time.

Kenneth Gooding

Striking the right price



UK water group braced for £1.5bn offer

By Simon Holberton and Motoko Rich in London

A £1.5bn-£2bn ($2.28bn-$3.04bn) bid for Southern Water is expected this week after takeover talks between the UK water utility and its two suitors broke up yesterday without a suitable offer.

Scottish Power, the Scottish electricity utility, and Southern Electric, the regional electricity company (rec), yesterday made their respective pitches to Mr William Courtney, Southern Water's chairman, and Mr Martin Webster, managing director.

Last night the company indicated there was "no bankable offer on the table".

Both Southern Electric and Scottish Power had extensive meetings with Southern Water at the offices of Goldman Sachs, its financial adviser, in the City. Barings is advising Scottish Power and BZW is advising Southern Electric.

Southern Electric's formal position yesterday was that it would not confirm or deny its discussions with Southern Water. But a merger of its business with Southern Water would make strategic sense.

In 1998 the electricity supply market in England and Wales will be opened to competition. There is only a small overlap in the territory covered by the two companies.

Scottish Power has £1.5bn in credit facilities to fund its bid. It did not rule out launching a bid today but emphasised "we want agreement, we want a recommendation" from Southern Water's board.

Southern Water's shares closed 6p higher at 681p on Friday. A bid of £1.5bn would value each share at 889p, while one of £2bn would value the shares at £11.86.

Scottish Power last year acquired Manweb with a £1.1bn bid for the rec. This gave it a foothold in the electricity supply business in England and Wales.

The acquisition of Southern Water would extend its reach to a further 1.7m water and sewage customers in the south of England and add an important element to its plan to become a "*multi-utility*".

Mr Ian Robinson, Scottish Power's chief executive, said: "Our strategy has been to be a multi-utility. We think water is an integral part of a multi-utility offer." He said Southern Water was the right size and provided a growth opportunity.

"It is not only a water company but within their territory we can competitively supply electricity and gas. We will put a few shops in the territory to put our brand name out there. We can also take Southern Water's expertise in sewerage and put it into Scotland."

A bid of £1.5bn would cause *Scottish Power's gearing to top* 100 per cent, against 53 per cent at March 31. For Southern Electric's part, it has very low gearing and a combined entity could probably support the debt needed to fund a merger.

Lex, Page 22

STATISTICS

COMPANIES IN THIS ISSUE

Zoloto to raise $60m on Aim for Russian gold mine

By Kenneth Gooding, Mining Correspondent

Zoloto Mining, a UK company, is to raise about $60m on the London Stock Exchange's Alternative Investment Market to develop a gold mine in the Amur Region in the far east of Russia.

This will be the biggest sum yet raised by an Aim company. Mr Peter Hambro, chairman of Zoloto, said Aim was chosen instead of a full London listing "because it is cheaper".

Zoloto is taking an unusual approach to the so-called Pokrovskoye project. Originally, it intended to follow a conventional path and use US equipment and operating management but this made the project scarcely worthwhile. Instead, Pokrovskoye will use Russian management and equipment, except for the mining vehicle fleet.

Mr Hambro said this would reduce the capital cost of the project from $93.3m to $61.7m and lift the projected internal rate of return from 18 per cent to 28 per cent.

Initial reductions include the $8m it would have cost simply to transport equipment from the US. Also, Mr Hambro estimated it cost about $250,000 a year to keep an ex-patriot employee in Russia. "And many of the best people can choose where they want to work and it is difficult to persuade someone to move to an area where the temperature swings between plus 40 degrees and minus 40 degrees."

Conversely, there is great enthusiasm among Russian employees who will go to the US to be trained by Homestake Mining, which is one of the biggest North American gold producers and owns 14.5 per cent of Zoloto.

Mr Hambro said the plan now called for a two-stage capital programme, the first costing $47m and a second, seven years later, that would double output at a cost of $14m.

Mining an open pit is scheduled to start in the second half of 1998. In the first year, Pokrovskoye is projected to produce 106,000 troy ounces of gold at an operating cost (including royalties) of $120 an ounce.

Mr Hambro suggested in order to use the expected strong cash flow to pay back investors in a tax-efficient way, the Aim issue was likely to be split between equity and loan capital in the form of redeemable/convertible loan stock or redeemable/convertible preference shares repayable in five years.

Mr Hambro said the issue would be held back until after the Russian presidential elections and until the results of a recent drilling programme were known. At present, Pokrovskoye has 1.8m ounces of recoverable gold in its reserves.

Halifax set to sign up Royal Bank

By Motoko Rich

Halifax Building Society, which plans to float next year, is expected to announce this week that it has appointed the Royal Bank of Scotland to run its share register.

The deal would put the Royal Bank, which is the UK's second largest share registrar, in charge of the largest single extension of share ownership in Britain.

The two are expected to sign final contracts this week specifying the Royal Bank as the registrar for the approximately 9m members who will receive shares in Halifax's flotation.

The Royal Bank will be responsible for setting up and maintaining the register and distributing share certificates.

The Halifax decided to subcontract the task of managing its share register because it has no internal expertise and will have its hands full in the run up to flotation.

It considered other registrars, including Lloyds TSB, the UK's largest, and Abbey National.

Its rivalry with Abbey in the mortgage lending market may have influenced its decision.

The Halifax selected its share registrar from a dwindling pool as Barclays Bank stopped operating as a share registrar earlier this year.

The Royal Bank and Lloyds hold more than half the market.

One of the more important tasks for the Royal Bank will be managing the market immediately after vesting day.

Halifax believes that a reasonable number of its members will want to offload the shares, and it will be concerned not to repeat the administrative chaos suffered by Abbey National when it floated in 1989. Abbey was the first building society to convert to a bank and issue free shares to members in return for agreeing to the conversion.

When it floated, a flood of its members sought to sell their stakes and could not all do so as quickly as they wanted. It also issued some customers too many shares because they had several accounts listed in slightly different names.

United Utilities to raise pay-out to soothe critics

By Jane Martinson

United Utilities, the UK's first multi-utility, is planning to announce a dividend at the top end of market expectations this week in a move intended to lift its sagging share price.

Expected operating profits of more than £460m will be in line with analysts' most optimistic forecasts. A dividend close to 33p is intended to show the group's confidence in its future growth, and to put its critics at ease.

This year's results will be keenly watched by the market as they are the first since United was formed after North West Water's £1.8bn takeover of Norweb last November.

The dividend, which will include a 3.8p special dividend announced last year, will be significantly higher than North West's full-year 25.5p dividend last year.

In March, the group announced merger savings of some £140m a year by the end of the century, and said that dividend growth in excess of 11 per cent a year would be possible, up from an estimated 7 per cent in North West's offer document for Norweb. "They are showmen so you would expect them to go for the upper end of expectations," said one analyst. "The question would be whether they can sustain that growth."

United believes it can. Mr Bob Ferguson, group finance director, said: "The multi-utility concept and the way we envisage it going forward is the most exciting thing I have experienced to date."

In spite of these figures the benefits of the deal are still being assessed. Although the March announcement pushed the group's share price up on the day, it failed to overturn the company's poor performance relative to the sector since last September.

The company believes that the concept of a multi-utility has been ill-understood by the City, which has failed to give it credit for the earnings enhancing nature of the deal.

Mr Robert Miller-Bakewell of NatWest Markets, the house broker, said it would be understandable if United was displeased with the market reaction to its March announcement. "There will be a considerable desire to present the results on Thursday in the most positive light in order to recharge interest in the share price," he said.

The complications of the merger and the difficulty in making like-for-like comparisons this year have led to varying forecasts. One analyst described his pre-tax forecast as "not very illuminating", in part because of the uncertainty concerning the treatment of exceptionals, which include a £104m provision for the reorganisation, and gains from some disposals.

The company is expected to announce a pre-tax profit for the year of less than £300m after exceptional items.

The group has forecast strong growth in its non-regulated businesses. It expects international expansion to boost earnings at the facilities management division it created by combining the service departments of North West Water and Norweb after the merger. It is also seeking to expand its international division and has been involved in preliminary talks with UtiliCorp of the US.

BBA to sell carpet arm for £34m

By Peter John

BBA, the transportation services and industrial manufacturing company, is to sell its Duralay, carpet arm for £34m.

Duralay makes carpet underlays and accessories for domestic and commercial customers and employs 850 people at sites in Lancashire, County Durham, London and Dumfries. The sale to the subsidiary's management is backed by CINVen, the venture capitalist, which has put in £16.5m.

BBA's move continues a process of heavy restructuring instigated by Mr Roberto Quarta, the chief executive, who has aggressively overhauled BBA since his arrival from BTR three years ago.

Over that period, the company has cut more than 2,000 jobs and sold businesses with combined sales of about £400m.

Whittard of Chelsea brews up £20m float on Aim

By Christopher Brown-Humes

Whittard of Chelsea is expected to announce plans to float on the Alternative Investment Market today, valuing the upmarket tea and coffee retailer at about £20m and raising up to £3m for expansion.

Mr Will Hobhouse, managing director, says the group wants to double the size of its 79-strong UK shop network over the next five years while continuing its growth overseas, particularly in Asia.

"We would like to be a category killer in quality tea and coffee, mugs and teapots," he says.

The venture capitalists, led by Granville Private Equity Managers, who backed Whittard with £500,000 in 1988 will get an exit and £6m from the sale. Mr Hobhouse, who masterminded the rapid growth on Tie Rack in the mid-1980s, and Mr David Gyle-Thompson, chairman, will each retain about a third of the company.

Whittard, founded in 1886, only had three London stores before it began a rapid expansion in the late 1980s. It now has 58 shops outside London, stretching from Exeter to Edinburgh, 21 in the capital, and a presence in Japan, Taiwan, France, and Poland. In a sector dominated by Twinings, the company estimates it has about 14 per cent of the UK speciality tea market.

Profits of £2m were generated on sales of £18.5m in the 10 months to March 24 1996. Both sales and shop numbers have doubled over the last two years.

Will Hobhouse: plans to double UK shop network

Dynacast to build £5m Welsh plant

By Jenny Luesby

Dynacast, the precision engineering subsidiary of Coats Viyella, is to site its first European plastics moulding plant in South Wales, in a £5m greenfield investment that will create 130 jobs within three years.

The rapidly-growing company is one of the 10 largest plastics precision moulders in North America, with 14 plants in Canada, the US and Mexico.

It acquired US plastics moulding companies PEC in 1994 and SPM last year, and has built three new plastics moulding plants - in North America in the last two years.

It specialises in casings for telephone hand-sets and laptop computers, and in car dashboards. It operates in an overcrowded and fragmented sector. But whereas most plastics moulders are tiny and geared towards short runs and low service levels Dynacast hopes to build on its scale and reputation in North America by expanding into Europe. Its American customers include Nortel, Compaq, Epson, Ford, Hewlett Packard, Intel and Motorola.

The company considered sites in Spain and France, but was attracted by the assistance offered by the Welsh Development Authority. It will receive £2m in regional selective assistance.

It plans to start construction of the plant at the Cwm Cynon industrial park, near Mountain Ash, in July, with the first production slated for January.

Great Eagle to buy Langham Hilton

By John Ridding in Hong Kong

Great Eagle Holdings, the Hong Kong property and hotels company, is to buy the Langham Hilton hotel in London from the Ladbroke Group for £100m.

The deal marks the first step in the Hong Kong group's planned international expansion.

Great Eagle already owns several hotels in its home market, and says it is now looking for development and acquisition opportunities in Hong Kong, New York, the west coast of the US, and China.

Great Eagle said it was buying the Langham Hilton as a long term investment, citing its strong earnings potential. "In view of the tight supply of hotel accommodation in London in the forseeable future, the generally improving global economic environment and the Langham's prime location, Great Eagle is confident of continuing improvement", the group said.

According to the Hong Kong company, which is controlled by the Lo family, the Langham Hilton achieved operating profits last year of £7.5m. This compares with operating profits of HK$277.2m (£23.7m) last year from the group's hotels division.

The acquisition of the five-star West End hotel is to be funded partially by bank loans and partially by Great Eagle's internal resources.

A deposit of £10m has been paid and the balance will be transferred on completion of the deal, which is expected in late August.

Prism Rail raises £8m

By Motoko Rich

Prism Rail, the company which has been awarded a 15-year franchise to run the London, Tilbury & Southend railway, raised £8m in a recent placing which preceded its listing on the Alternative Investment Market tomorrow .

Prism, which will run the mainly commuter service dubbed "the misery line" because of its frequent delays and breakdowns, will become the UK's first publicly-quoted train operating company since the railways were nationalised in 1947. The group completed an £8m placing last Thursday in which it issued 8m new shares. It said the placing was oversubscribed, and that the unsatisfied demand could represent a pool of institutional investors who could provide a "ready source of additional capital to fund other franchises".

Wagon makes £4m acquisition

Wagon Industrial Holdings has bought NC Brown (Storage Equipment) for a total of £4m.

The payment will be satisfied by the issue of 371,000 Wagon shares and £2.5m in cash. The vendors have agreed to retain the shares for at least 12 months.

Wagon has also entered into a contract to sell the business of Wefco Group, which makes tanks and pressure vessels, to Zarmax for £1.6m.

Independent Energy to raise £3m from placing

By Patrick Harverson

Independent Energy Holdings, a company which sells electricity direct to business users, will announce plans for its introduction to the Alterative Investment Market today.

IEH will raise £3m from the placing of 3m shares at 100p each, and dealings are expected to start on Friday.

The shares sold this week will represent about 23 per cent of the issued capital, and after its admission to Aim the company will be capitalised at about £13m.

The majority of IEH is owned by a group of wealthy businessmen in North America and the UK.

The company currently sells power from the national electricity "pool" to 15 business customers but it plans to begin selling its own gas-fired electricity this summer when the first of 11 licensed generators begins operating.

It will get the gas from small "stranded" gas fields that have been discarded by larger companies because they were uneconomic.

Vocalis heads for market

Vocalis, the speech recognition and call processing specialist, is to float on the London Stock Exchange in a placing that should raise £5m.

The group, which plans to use the funds raised to expand its sales and marketing activities, should achieve a flotation value of about £25m.

Directors, who now own 43 per cent of the company, are expected to hold 30 per cent following the placing. Prelude, the venture capitalist which currently holds 22 per cent, has no plans to sell its stake.

Albert E Sharp is sponsor and broker to the issue.

Malaysia Monetary Exchange opens today

By James Kynge in Kuala Lumpur

Malaysia is today due to open its second financial futures exchange, an important link in the country's ambition to become a regional financial centre rivalling Hong Kong and Singapore.

The Malaysia Monetary Exchange is expecting brisk demand for its single initial contract: the Kuala Lumpur Interbank Offered Rate (Klibor) futures contract, billed locally as the world's first hedging instrument for interest rates on the Malaysian dollar, or ringgit.

The Klibor is used as a benchmark against which banks price their loans to companies and through which the interest rate on money-market instruments is set.

Klibor futures would allow banks better to manage risks on their lending and to hedge against future interest rate fluctuations in the ringgit money market.

Economists say that, in theory, the Klibor futures contract should increase liquidity in the local money markets and raise the sophistication of bank lending in an economy which the government has said should grow at 8 per cent annually until 2000.

Mr Syed Jabbar Shahabuddin, MME executive chairman, said trade in money market instruments had grown at about 50 per cent annually for the last few years. Most popular are negotiable certificates of deposit, bankers' acceptances, Malaysian government securities and Klibor deposits.

Seats on the MME come cheaper than on Malaysia's other futures exchange, the Kuala Lumpur Options and Financial Futures Exchange (Kloffe), which trades stock index-based futures.

Foreign companies are barred from holding seats directly on the MME but can trade via existing alliances with local brokers who have bought seats.

Mr Syed said the MME planned to launch US dollar-ringgit currency futures either this year or in 1997.

Write-offs hit Japan's trust, long-term credit banks

By Gerard Baker in Tokyo

Japan's trust banks and long-term credit banks yesterday joined the country's city banks in declaring record pre-tax losses for the year to the end of March.

The three long-term credit banks, institutions that have traditionally specialised in large-lot industrial lending, reported a combined recurring loss – before extraordinary items and tax – of Y408bn ($3.79bn), compared with a profit in the previous year of Y90bn.

The seven trust banks all reported recurring losses, amounting to a combined deficit of Y1,396bn, against a profit last year of Y79.2bn.

The losses arose from the banks' decision to write off more than Y4,000bn in bad loans between them, accumulated during the collapse of the property market in the last five years.

Last week, the 11 city, or commercial, banks wrote off a similar number of bad loans and recorded their largest-ever combined loss.

All banks are under strong regulatory and political pressure to eliminate their asset quality problems as quickly as possible. The trust banks are especially burdened with bad loans, and even after yesterday's announcement most will continue to struggle with the problem for several years.

The banks were able to write off such a large number of losses in part because of strong profits from their core activities. Low interest rates helped lift the combined net operating profit by 131 per cent at the three long-term credit banks to Y618.1bn, and by 48 per cent at the trust banks to Y652.7bn.

The combination of direct write-offs and extra special provisions for loan losses, increased the overall coverage the banks have against ultimate possible losses on their bad loans.

However, in spite of these big provisions, they are still some way short of eliminating the problem. The two groups now have combined specific reserves covering just 40 per cent of their total bad loans. The city banks, in contrast, have provided for more than 50 per cent of their potential losses.

Of the long-term credit banks, the Long-Term Credit Bank of Japan has so far taken the most radical measures to improve its balance sheet. It is shrinking its global asset base in an effort to improve capital adequacy.

Many of the trust banks will see their capital strength weakened by the bad loan write-offs, and several are expected soon to shore up their capital base. Mitsubishi Trust said yesterday it was considering issuing preferred shares in the second half of the current financial year.

● A leading Tokyo-based property developer was arrested yesterday on suspicion of obstructing the auction of a company-owned plot of land.

Mr Kichinosuke Sasaki, the president of Togensha, one of the more famous contributors to the land price inflation of the "bubble economy" of the late 1980s, was accused of falsifying a contract to block a request by the Industrial Bank of Japan that the parcel of land be auctioned.

The bank wanted to dispose of the property after Togensha had failed to repay more than Y20bn in loans.

Mr Sasaki, it is alleged, drew up false documents purporting to lease the land to a company affiliate.

Togensha was a leading borrower from the country's now bankrupt housing loan companies, or *jusen*.

The liquidation of the *jusen*, involving the planned use of public funds, has aroused strong popular opposition because of the links many of them had with dubious property developers and gangsters.

Togensha is the second leading *jusen* debtor to be investigated by the authorities after Sueno Kosan, an Osaka-based property company, was raided by police earlier this month.

● Due to an editing error, it was incorrectly reported in Saturday's FT that Sumitomo Bank declared a second successive loss for the year to March 31 1996. In fact, the bank made a profit last year after a loss in the previous year.

How results and bad loans of the long-term credit banks and trust banks compared (Ybn)

	Operating revenue		Net business profit		Recurring profit*		After-tax profit		Bad loans**	Change since
	1995-96	1994-95	1995-96	1994-95	1995-96	1994-95	1995-96	1994-95		Sept 95 (%)
Long-term credit banks										
IBJ	3,520.3	2,960.4	248.6	130.2	–167.0	57.2	–132.6	25.1	984.8	–26.9
LTC	2,781.5	2,393.1	203.7	80.9	–110.5	18.1	–113.0	20.1	1,035.4	–21.2
NCB	1,434.9	1,208.3	165.8	56.9	–131.2	15.2	–163.9	13.1	1,412.4	+ 7.9
Totals	7,736.7	6,561.8	618.1	269.0	–408.7	90.5	–409.5	58.3	3,432.6	
Trust banks										
Mitsubishi T&B	1,104.2	1,099.7	204.3	150.2	–321.0	25.0	–337.1	12.4	1,290.7	– 4.3
Sumitomo T&B	1,087.9	1,152.1	182.4	148.8	–331.1	12.9	–325.0	12.5	1,228.2	+ 0.1
Mitsui T&B	1,053.8	1,033.8	67.2	25.1	–246.9	15.7	–253.7	10.6	1,324.5	+10.3
Yasuda T&B	943.6	725.9	107.3	59.2	–217.9	14.7	–189.5	9.3	1,196.5	–19.4
Toyo T&B	528.2	488.9	47.9	37.3	–164.4	13.8	–173.6	7.0	496.5	–10.5
Chuo T&B	317.6	316.5	36.5	24.7	– 71.8	3.6	– 74.9	2.7	334.1	– 5.0
Nippon T&B	79.6	72.3	7.1	– 4.2	– 43.4	–6.5	– 40.0	–164.0	144.7	+ 9.7
Totals	5,114.9	4,889.2	652.7	441.1	–1,396.5	79.2	–1,403.8	–109.5	6,015.2	

* Including restructured loans, on which interest has been specially reduced; ** Definitions differ slightly between banks

Source: Companies

Philips and KPN in TV link with Nethold

By David Brown in Amsterdam

Philips, the Dutch consumer electronics group, and PTT Nederland KPN, the recently privatised telecoms group, are to join forces with Nethold, a privately-owned provider of pay television, to introduce digital television in the Benelux countries this summer.

If the deal goes through as planned, it will mean that the existing subscription and pay-per-view TV competitors in the region – FilmNet/SuperSport (owned by Nethold) and TeleSelect (a Philips-KPN joint venture) – will be subsumed into a single operating entity.

The broad agreement, confirmed by all three parties at the weekend, will involve KPN and Philips exchanging control of TeleSelect for shares in Nethold Benelux.

Mr Paul Kenninck, Nethold Benelux's chief executive, confirmed that a report by the Dutch newspaper NRC Handelsblad – which stated that KPN and Philips will each take a 10 per cent stake – was substantially correct.

A Philips spokeswoman added: "We hope to make an official announcement later this week."

The small size of the TeleSelect joint venture – which has some 12,000 subscribers, compared with FilmNet's 350,000 and SuperSport's 250,000 – belies the potential strategic importance of the deal.

For one thing, it will secure Nethold's access to the 1.2m households connected by KPN's cable TV subsidiary Casema, which has hitherto co-operated with TeleSelect on pay-TV development.

Nethold, controlled by Richemont, a Swiss-based tobacco and luxury goods group, and MCL MultiChoice (which is in turn owned by Mr Johann Rupert, the South African financier), has some 2.7m subscribers across 43 countries.

It is the largest provider of pay-TV outside the US, after France's Canal Plus and BSkyB of the UK. Last month, it unveiled plans to launch digital TV in the Benelux region.

Samsung shares hit two-year low after slide in chip prices

By John Burton in Seoul

Shares of Samsung Electronics, the South Korean group which is the world's biggest producer of computer memory chips, have plunged to a two-year low amid gloomy forecasts about semiconductor prices.

The Samsung Electronics share price has almost halved from the year's high of Won144,000 on February 1, to end yesterday at Won76,000 after dipping to Won72,800 on Saturday.

Samsung has been hurt by rapidly falling prices for its mainstay 16-megabit dynamic random access memory (D-Ram) chip, due to excess global production. The international spot market price for 16-megabit D-Rams in mid-May was $16-$18, against $46-$52 only six months ago.

The Semiconductor Industry Association in the US recently predicted that global D-Ram prices and sales would continue to weaken until the end of 1997. This is particularly bad news for the Korean semiconductor industry, which also includes the LG and Hyundai groups, because of its heavy dependence on D-Ram chips rather than more advanced semiconductors.

The fall in memory chip prices also poses difficulties for the Korean economy, since semiconductors accounted for 18 per cent of total exports of $125bn last year. Officials expect the 1996 trade deficit to widen to $10bn from a target of $7bn because of the chip price decline.

Analysts are worried about the impact on the Seoul bourse of the downturn in Samsung shares, since Korea's only listed main chipmaker is the third largest company in terms of market capitalisation.

Samsung had earlier predicted net profits of Won3,200bn ($4.15bn) for 1996 against last year's profits of Won2,500bn, but officials admit that will be difficult to achieve. Semiconductors account for at least 80 per cent of total profits for Samsung Electronics, which also manufactures consumer electronics, telecoms equipment and computers.

Most analysts believe that Samsung's 1996 earnings will range between Won1,100bn and Won1,700bn, still the largest profits of any Korean company. Samsung's other main businesses, including shipbuilding and chemicals, are also expected to report profit falls this year.

Sharp growth at Hindustan Petroleum

By Kunal Bose in Calcutta

Hindustan Petroleum, India's second largest oil group, reported a 31.42 per cent increase in net profits for the year, reflecting a high level of refinery capacity utilisation and strong growth in sales.

Net profits increased from Rs3.91bn to Rs5.14bn ($147m) in the year to March, on the back of a 12.4 per cent rise in sales of petroleum products, to 14.15m tonnes. Earnings per share rose to Rs25.33 from Rs20.43. A final dividend of Rs2 a share makes a total for the year of Rs3.5 a share.

The company's joint venture with Birlas, India's second largest business group, commissioned a new 3m-tonne capacity refinery in Karnataka last March, three months ahead of schedule. Capacity is to be expanded to 9m tonnes.

Profits of Japanese drug groups ahead

By Emiko Terazono in Tokyo

Japanese pharmaceutical companies yesterday announced steady increases in sales and earnings for the 12 months to March, but released weak forecasts for the current year due to the government's cuts in official drug prices.

Yamanouchi Pharmaceutical said unconsolidated current earnings for the past year to March rose 4.4 per cent to Y60.5bn ($563m) on an 8.1 per cent increase in sales to Y295.1bn. After-tax profits rose 1.5 to Y28.6bn. The company will add Y1.5 a share to its annual dividend, taking it to Y23 a share.

Sales of Yamanouchi's ulcer treatments rose 13.5 per cent while revenues from its urinary disturbance treatment jumped 45.4 per cent.

For the current year Yamanouchi sees the government's drug price cut weighing on sales and earnings, costing it about Y17bn in annual revenues. Recurring profits – before extraordinary items and tax – are expected to rise 0.1 per cent to Y60.6bn on a 1.6 per cent rise in sales to Y300bn.

Dai-Ichi Pharmaceutical posted a 2.6 per cent increase in unconsolidated current earnings to Y42.8bn on a 2.6 per cent rise in sales to Y217.3bn, thanks to its oral antibacterial drug. After-tax profits rose 8.8 per cent to Y20.5bn.

The company sees new drugs helping its parent sales to grow by 2.2 per cent to Y222bn, but expects the cut in prices to eat in to its profit margins. It forecasts recurring profits will rise 0.5 per cent, to Y43bn.

Hollinger lifts its Southam stake to 41%

By Bernard Simon in Toronto

Hollinger, the publishing group controlled by Mr Conrad Black, is set to shake up Canada's newspaper industry after a series of acquisitions culminating in the purchase of a controlling stake in Southam, the country's biggest newspaper chain.

Hollinger has lifted its stake in Southam from 20.5 per cent to 41 per cent by paying C$294m (US$214m) for shares previously held by Power Corporation, the Montreal-based investment holding company.

Mr Black, whose interests include control of the UK's Telegraph group and the Chicago Sun-Times, indicated that Hollinger planned shortly to raise its stake in Southam to 50 per cent, and then to buy out the minority shareholders.

The Southam deal gives Hollinger control of 58 daily newspapers in Canada, most of them acquired in the past year. Southam's 20 papers include the main titles in Vancouver, Calgary and Ottawa, as well as Montreal's biggest-selling English-language paper.

Hollinger is also a leading candidate to buy control of the Financial Post, a business daily, which was put up for sale earlier this month.

Analysts expressed concern that the spate of acquisitions could significantly increase Hollinger's debt. Mr Ben Dubé, analyst at Credifinance Securities in Montreal, estimated that the debt could grow from C$1.1bn at the end of last year to as much as C$3.1bn, including a pending deal to buy out the Telegraph's minority shareholders and a bid for the Southam minorities. Southam has debt of close to C$200m.

However, Mr David Radler, Hollinger's president, said Hollinger International, a US subsidiary, and possibly the parent company as well, planned to issue new equity "pretty soon". The equity issues would also help finance the Telegraph share purchase.

Observers said Mr Black was also banking on a sharp correction in newsprint prices to help offset the extra debt-servicing burden. The newsprint market has recently begun to fall back after surging in 1994 and 1995.

Hollinger's shares were 15 cents lower at C$11.35 on the Toronto stock exchange yesterday afternoon.

Southam, which until 1985 was family-controlled, has had a reputation of not making the most of its assets. The pace of change has quickened in recent years, with 750 job losses and a C$250m capital spending programme.

But first-quarter earnings were below analysts' expectations. RBC Dominion Securities said in a report earlier this month that "the benefits [of increased efficiency in the operations] have yet to filter through to the bottom line".

Hollinger indicated that it intended to turn up the heat. Six of Southam's outside directors have been asked to resign, and some new directors will be appointed. "We think we can make more money," Mr Radler said. "Some people on the board didn't think that was possible."

BHP appointment breaks tradition

By Bethan Hutton in Sydney

BHP, the Australian resources group and the country's largest company, has named Mr Jeremy Ellis, the executive general manager and chief executive officer of its minerals division, as the successor to 67-year-old chairman Mr Brian Loton, who is due to retire in May next year.

The move breaks with the BHP tradition of moving its managing director up into the chairman's position, and means that Mr Ellis in effect "leapfrogs" Mr John Prescott, who has held the managing director's job for five years.

However, BHP stressed yesterday that Mr Prescott will remain as managing director and chief executive officer.

Mr Ellis, who is 58, joined BHP in 1967 from ICI, after studying at Oxford on a Rhodes scholarship. He has been credited with the successful development of BHP's minerals arm over the past decade, expanding it both in terms of product and geographic diversity. In recent years this unit has become the largest earnings source for BHP.

By contrast, Mr Prescott – who is a couple of years younger than Mr Ellis – has experience in the steel and transport arms of BHP.

Mr Ellis is president of the Minerals Council of Australia and a director of the National Mining Congress in the US. He will retire from his current posts in July and take the role of deputy chairman for 10 months before moving up to the chairmanship.

BHP Minerals also announced it is to split into two groups: BHP Minerals and BHP Copper. From July 1, Mr Richard Carter will become executive general manager and chief executive officer of BHP Minerals, and Mr Burgess Winter will fill the corresponding roles at BHP Copper.

NEWS DIGEST

SA banking group posts 49.9% rise

Amalgamated Banks of South Africa, the country's largest banking group, has posted a 49.9 per cent rise in attributable income to R1.1bn ($252m) for the year to March, from R754m in the previous period. Earnings per share rose 30 per cent, from 136.8 cents to 178 cents, and the final dividend goes up 20.4 per cent to 37.5 cents.

Analysts welcomed the results, which they said confirmed Absa's turnround in the wake of difficulties experienced integrating the group's four component banks.

Mr Danie Cronje, group chief executive, said management had "set itself the tough challenge of having the mergers totally bedded down within five years. We have significantly narrowed the gap between Absa's profitability and those of the other major banks".

Return on equity rose to 15.39 per cent, from 13.45 per cent the previous year, and return on assets increased from 0.86 per cent to 0.97 per cent. Despite tougher conditions in the retail sector, interest income rose by 14.5 per cent to R4.6bn, against R4bn, and the bank maintained its 50 per cent share of the home loans market.

Operating expenses as a percentage of total income were 70.5 per cent for the period, compared with an average of 66.7 per cent for Absa's competitors – but a single electronic operating system would be operational within 15 months. Global depository receipts for 58m shares would be issued to international institutions this year.

Mark Ashurst, Johannesburg

Metway changes tack

Metway, the Queensland-based bank which was to have merged with New South Wales-based St George Bank, has broken off that deal in favour of a complex merger with state-owned Suncorp Insurance and Finance, and the Queensland Industry Development Corporation. A fourth party, the Bank of Queensland, which is 44.4 per cent owned by Suncorp, is also to be invited in to the merger.

The proposal is backed by the Queensland state government, which would hold an initial 70 per cent stake in the merged group but plans to sell all but 15 per cent over the next five years. Integrating the three or four companies could take two years or more. The merged group would have assets of about A$21bn (US$16.6bn), making it the country's fifth-largest listed financial services groups, and would be largely Queensland-focused.

The agreed St George offer for Metway, at A$4.62 a share, valued the company at A$790m. The new proposal would give Metway shareholders a choice of holding on to their shares, or accepting a $4.65 cash offer, to be funded by an underwritten capital raising by a listed unit trust.

This would be the fourth time St George has failed to merge with a regional bank, but it may still be considering a counter-offer.

Bethan Hutton, Sydney

KNP BT agrees Czech deal

KNP BT, the Dutch paper and packaging group, said it had concluded an agreement in principle to acquire 80 per cent of Karton Morava, a Czech packaging group, from the Czech-based ICEC Karton Holding, for an unspecified sum. KNP BT, which earlier bought two packaging companies in Poland, said the new acquisition would reinforce its further expansion in the emerging markets of central and eastern Europe.

Karton Morava, with a workforce of 600, consists of two corrugated box plants plus a paper mill that recycles waste paper to provide seed stock for the plants. The combined annual output of the two operations, near the cities of Zimrovice and Brno, is 86m sq m of corrugated board and 50,000 tonnes of corrugated paper.

Karton Morava has an estimated market share of 25-30 per cent and enjoys "a leading position" in its market segment in the Czech Republic, KNPBT said. There are plans to expand production and for "a further optimisation of its paper production".

David Brown, Amsterdam

Shangri-La Asia in hotels buy

Shangri-La Asia, the Hong Kong property and hotels group, is to buy interests owned by its parent Kuok Group and independent third parties in 13 hotel project investment companies in China for HK$2.48bn (US$321m), its chairman, Mr Richard Liu, said.

Speaking after the company's annual general meeting, Mr Liu also said that "it is intended that Kerry Properties [a private company within the Kuok Group of media and property interests] will seek a [stock market] listing at the appropriate time". He said the acquisition would involve a cash payment of HK$1.3bn and the issue of 105.7m new shares at a price of HK$11.14 apiece.

AFX-Asia, Hong Kong

Price cut hurts Japan's power groups

By William Dawkins in Tokyo

A government-imposed electricity price cut took the shine off what was otherwise a bright 1995 for Japan's five largest private-sector electricity companies, all of which yesterday reported profits declines in the year to March.

Tokyo Electric Power, the world's largest private electrical power supplier and provider of one-third of Japan's electricity, was hardest hit, with a near 20 per cent decline in recurring profits – before tax and extraordinary items – on turnover marginally ahead at Y5,031bn ($46.7bn).

Of the rest of the group, **Kansai Electric**, supplier of power to Japan's central industrial heartland, reported a 9.6 per cent profits decline; **Chubu Electric** was 6.7 per cent down, **Kyushu Electric's** profits fell by 9.4 per cent and **Chugoku Electric** produced an 8.6 per cent profits decrease.

All five forecast another decline in profits in the current year to next March, on the assumption that Japanese interest rates will rise, so pushing up the cost of servicing their heavy debts. Some, notably Tokyo Power, are trying to soften the coming interest rate blow by issuing low interest rate bonds and using the proceeds to pay off higher rate bank borrowings.

They all blamed their profits fall on a 1.7 per cent electricity price cut set by the government in January 1996. It was a consequence of the authorities' decision to reduce the return on assets which electricity companies are permitted to make, part of the government's attempts to stimulate domestic industrial activity.

How Japanese power group results compare (Ym)

	Sales	Recurring profit*	After-tax profit	Div (Y)	EPS (Y)
Tokyo Electric					
Year to Mar 96	5,031,803	167,550	48,112	50	35.77
Previous year	4,975,400	208,904	80,200	50	59.87
Year to Mar 97†	5,000,000	130,000	52,000		38.44
Kansai Electric					
Year to Mar 96	2,514,353	122,176	48,042	50	49.09
Previous year	2,493,400	135,133	29,957	50	30.92
Year to Mar 97†	2,510,000	110,000	55,000		56.20
Chubu Electric					
Year to Mar 96	2,082,083	89,290	44,040	50	59.08
Previous year	2,038,600	95,671	43,133	50	58.45
Year to Mar 97†	2,070,000	80,000	38,000		50.98
Kyushu Electric					
Year to Mar 96	1,398,490	81,275	41,991	50	88.56
Previous year	1,361,600	89,710	44,587	60	94.97
Year to Mar 97†	1,350,000	50,000	28,000		59.05
Chugoku Electric					
Year to Mar 96	1,008,237	53,128	22,148	50	60.28
Previous year	1,001,200	58,104	22,224	50	61.09
Year to Mar 97†	982,000	38,000	21,000		56.60

*Before extraordinary items and tax, † forecast. Source: Companies

The new pricing system includes an automatic formula to trigger an increase when oil prices go up. There is, however, a three-month delay in the application of the trigger, which means the power supply companies are not expecting the latest oil price rises to feed through to an electricity rate increase until July.

The industry's aggregate volume sales grew by 2.2 per cent last year, rather faster than the domestic economy, according to Mr Paul Smith, of James Capel Pacific in Tokyo. That rise was almost entirely due to the extreme weather of 1995.

At the same time, most power companies managed to reduce operating costs by increasing the capacity utilisation of their nuclear plants. On average, nuclear plant operating rates increased by 3.6 per cent to 80.2 per cent.

This was partly because of a drop in technical problems, as well as a strategy to reduce use of more expensive oil and natural gas. Tokyo Electric is planning to increase its dependence on nuclear power from just over 40 per cent last year to 42 per cent in the current year.

Fuji Heavy reflects trend with strong rise

By William Dawkins

Three of Japan's top engineering companies added to the trend of a buoyant annual reporting season with sharp rises in profits for the year to March.

Cost-cutting, the improved Japanese economy, increased sales to east Asian emerging markets, strong demand for environmental equipment, and lower debt costs were the main factors at work at **Ishikawajima Harima Heavy Industries** and **Hitachi Zosen**, the aerospace-to-shipbuilding combines, and **Fuji Heavy Industries**, the car producer affiliated with Nissan.

Fuji Heavy cited increased domestic sales as the main engine behind its 258.4 per cent increase in non-consolidated recurring profit – before tax and extraordinary charges – to Y10.1bn ($93.8m). Remarkably, that was achieved on a 10.2 per cent decline in turnover to Y746.8bn.

It forecasts nearly doubled profits of Y20bn on a 3.1 per cent rise in sales in the current year to next March.

Hitachi Zosen came in yesterday with record recurring profits of Y26.1bn, up 13.2 per cent on the previous year, on sales up by 9.6 per cent to Y461.6bn. For the current year, the company is forecasting a 14.8 per cent rise in recurring profits to Y30bn on an 8.3 per cent rise in sales.

IHHI produced its first rise in sales and profits for five years, with recurring profits up 4.3 per cent to Y24.8n, on turnover ahead 4.9 per cent to Y855.9bn. However, it expects profits to fall 11.4 per cent this year to Y22bn on a 3 per cent decline in turnover to Y830bn, a consequence of declining sales of aerospace equipment.

100 YEARS OF THE DOW

The Dow Jones Industrial Average still captures the public imagination. When it breaks through numerical barriers, such as the 5,000 level, it provokes debate over whether the US market is overvalued. And the stock market crash of 1987 is memorable for its 508 point one-day fall in the Dow, rather than for the change in any other measures, writes Philip Coggan.

Yet the average attracts much less interest from fund managers than its reputation might suggest. According to Mr Jonathan Francis, head of global strategy at Putnam Investment Management in Boston: "It is a more potent measure for the average investor than for the professional."

One reason is simply that the average consists of only 30 companies which, however large, represent only a portion of institutional portfolios.

Funds which track a stock market index tend to look at the much broader Standard & Poor's 500, while overseas institutional investors may measure themselves against the FT S&P Actuaries US Index or the MSCI US index.

The measures can diverge significantly, depending on the sectors in which investors are most interested. Apart from IBM, technology stocks are little featured in the Dow and so a high technology rally might leave the Dow lagging behind measures such as the Nasdaq index.

But towards the end of last year, the Dow outperformed the S&P, and Putnam's Mr Francis thinks that "international investors were looking to increase weightings in the US and ploughed money into the Dow blue chips".

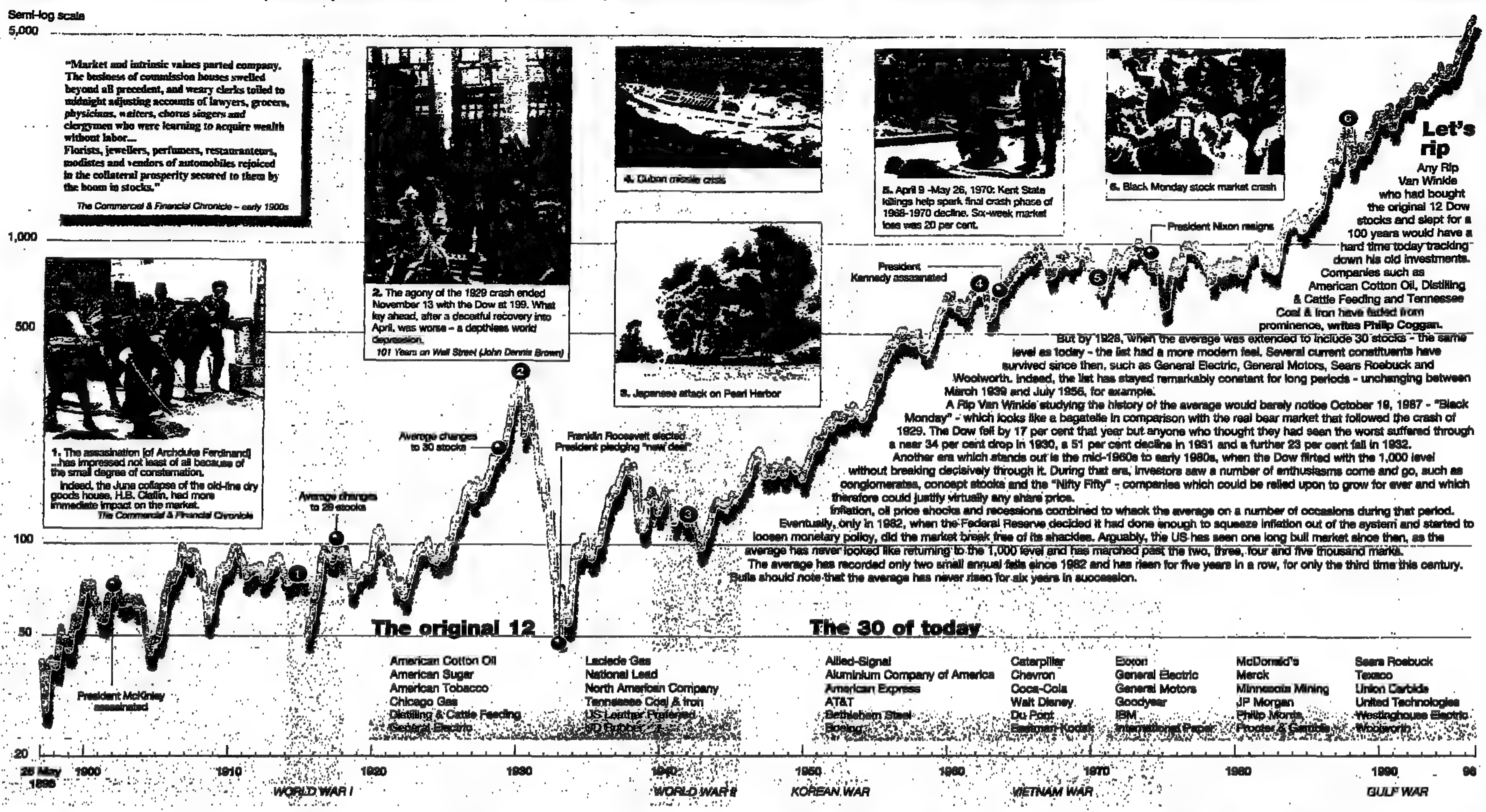
The Dow also stands out from the crowd in the way it is calculated. The average is price-weighted, with a stock with a $100 share price counting for twice as much as a $50 share. As fund manager Michael O'Higgins points out in his book Beating the Dow, this could create a misleading impression. "A huge move in a few high-priced components could send the average one way even though a majority of the components went the other way and the other way was the way of the broader market."

Other indices, such as the S&P 500, are market capitalisation weighted so, on top of the much wider range of companies covered, the method of calculation should give a better impression of the overall mood of the market.

Nevertheless, unlike the old FT-30 average which is calculated geometrically, the Dow's construction does not give it a downward bias over time. There have been occasional criticisms that the companies in the average - which are chosen by news editors of the Wall Street Journal - do not change sufficiently to keep in tune with the economy, but the diversification of some of its constituents in the 1980s, such as General Electric and Westinghouse, seems to have substantially addressed that problem.

The Dow still has a significant role on the New York Stock Exchange where a 50 point move in the average triggers restrictions on program trading. The regulation, introduced after the 1987 crash, is starting to look a bit out-of-date: a 50 point move represents a shift of less than 1 per cent with the Dow at current levels. The restriction was even triggered by both up and down moves on the same day earlier in May.

Despite the views of professionals, unless the general public learns to love the S&P 500, or the media decide to drop the average as their shorthand for the stock market, the Dow looks set to enjoy another 100 years.



Let's rip

Any Rip Van Winkle who had bought the original 12 Dow stocks and slept for a 100 years would have a hard time today tracking down his old investments. Companies such as American Cotton Oil, Distilling & Cattle Feeding and Tennessee Coal & Iron have faded from prominence, writes Philip Coggan.

But by 1928, when the average was extended to include 30 stocks - the same level as today - the list had a more modern feel. Several current constituents have survived since then, such as General Electric, General Motors, Sears Roebuck and Woolworth. Indeed, the list has stayed remarkably constant for long periods - unchanging between March 1939 and July 1956, for example.

A Rip Van Winkle studying the history of the average would barely notice October 19, 1987 - "Black Monday" - which looks like a bagatelle in comparison with the real bear market that followed the crash of 1929. The Dow fell by 17 per cent that year but anyone who thought they had seen the worst suffered through a near 34 per cent drop in 1930, a 51 per cent decline in 1931 and a further 23 per cent fall in 1932.

Another era which stands out is the mid-1960s to early 1980s, when the Dow flirted with the 1,000 level without breaking decisively through it. During that era, investors saw a number of enthusiasms come and go, such as conglomerates, concept stocks and the "Nifty Fifty" - companies which could be relied upon to grow for ever and which therefore could justify virtually any share price.

Inflation, oil price shocks and recessions combined to whack the average on a number of occasions during that period. Eventually, only in 1982, when the Federal Reserve decided it had done enough to squeeze inflation out of the system and started to loosen monetary policy, did the market break free of its shackles. Arguably, the US has seen one long bull market since then, as the average has never looked like returning to the 1,000 level and has marched past the two, three, four and five thousand marks.

The average has recorded only two small annual falls since 1982 and has risen for five years in a row, for only the third time this century. Bulls should note that the average has never risen for six years in succession.

An April explosion for hedge funds

Philip Coggan assesses the improvements in performance in a depressed and variable sector

Hedge funds have had a bad press over the last couple of years. The sudden plunge in global bond markets caught many unawares in 1994 and, in 1995, the high returns offered by the US stock market proved a hard benchmark to beat.

Some of the biggest names in the industry seemed to get discouraged. Mr Michael Steinhardt decided to give up completely; Mr Bruce Kovner of Caxton and Mr Paul Tudor Jones of Tudor Investments returned some funds to investors.

But in 1996 the tide seems to have turned. The Van Global Hedge Fund index rose 9.3 per cent in the first four months of the year, outstripping the 7 per cent achieved by the S&P 500 index.

The big names are doing rather better this year. According to Mr Michael Goldman of Momentum UK, the Jaguar fund (Mr Julian Robertson) was up 7.7 per cent in the first quarter, while Omega (Mr Leon Cooperman) was 9.9 per cent ahead. The Quantum fund of Mr George Soros was around 4 per cent ahead, lagging the S&P.

These leading names are concentrated in the "macro" sector, where managers take bets on global movements in interest and exchange rates. This was the sector which bore the brunt of 1994's problems. "Macro funds make their money from big economic shifts" says Mr Goldman. "But they prefer an established trend and, in 1994, as the interest rate cycle changed, some were dramatically caught out."

There was some talk that, earlier this year, hedge funds had been caught again, as a tactic of borrowing in cheap yen to invest in higher-yielding Treasury bonds turned sour in February. But Mr Patrick Moriarty, senior vice president at Evaluation Associates Capital Markets says "we heard a lot more talk about the trend in the media than we saw trades actually put on."

The macro managers are in any case not perfectly representative of the whole industry. The term "hedge fund" covers a vast range of management styles, including investment in emerging markets, distressed securities and market neutral approaches, which use a mixture of long and short positions. It is unlikely that any year would be good or bad for all hedge funds; in 1994, for example, short sellers earned 14.1 per cent.

FUND MANAGEMENT

Mr Goldman points out that "The hedge fund universe has grown exponentially over the last five years to include the broadest range of strategies and styles. Commonly these are lumped together under the general umbrella of high risk and high volatility. In fact, many hedge funds follow conservative strategies in predictable markets and have relatively modest shorter term return objectives but provide stable, long term profits."

The table shows how the different sectors, as defined by Van Hedge Fund Advisers, performed in the last five years and in the first four months of 1996. "April was an explosive month for hedge funds worldwide, with 12 of 14 US hedge fund investment styles and 10 of 12 offshore investment styles beating the S&P 500 and US equity/bond mutual funds," said Mr George Van, chairman of Van Hedge Fund Advisers.

The best sector so far this year has been aggressive growth funds which tend to invest in stocks with high price-earnings ratios but the prospect of rapidly increasing earnings. These achieved gains of 13.7 per cent in the first four months of the year, and 7.6 per cent in April alone.

The improved performance across the board is steadily increasing investors' confidence in the sector.

"Two things are starting to happen" said Mr Goldman. "People are coming back to the macro guys because they're starting to make money again, but there is also a growing tendency to invest in lower volatility, specialist sectors such as distressed securities."

Mr Moriarty also thinks that the problems of 1994 and 1995 may have done the industry some good. "Back in 1993, capacity in the industry was way over-extended" he said. "Now that some managers have lost assets, it has made them more competitive."

HEDGE FUND PERFORMANCE

Sector	1991	1992	1993	1994	1995	YTD 1996
Aggressive Growth	46.1	15.5	23.8	0.1	32.2	13.7
Distressed Securities	37.5	25.7	30.9	3.5	17.0	9.5
Emerging Markets	29.3	22.7	84.4	-4.1	-0.2	13.2
Fund of funds	12.5	11.3	24.3	-3.3	15.8	6.4
Income	25.3	14.8	21.4	-0.6	9.1	5.0
Macro	40.8	17.0	47.5	-13.8	9.3	7.0
Market neutral - arbitrage	17.7	14.8	18.6	2.5	14.5	5.6
Market n'l - sec's hedging	22.5	15.3	22.1	4.3	15.9	9.1
Market timing	45.6	12.1	20.4	-1.9	9.9	4.1
Opportunistic	47.2	27.1	31.4	2.6	26.5	9.0
Several strategies	31.8	18.5	24.3	0.1	21.5	9.3
Short selling	-19.8	7.8	-6.8	14.1	-14.7	-11.8
Special situations	28.6	17.4	29.0	3.2	21.6	10.5
Value	30.5	15.4	28.3	2.5	26.2	11.1
Van Global Hedge Fund Index	29.4	17.0	29.0	0.4	18.0	9.3

Source: Van Hedge Fund Advisers

FACES

The brisk new face of African banking

Omar Kabbaj has brought a new style to the African Development Bank since he took over as president eight months ago, writes Paul Adams. The small, unassuming 43-year-old Moroccan has no time for status symbols – and he wants rapid reform of the ADB.

"The style now is more businesslike and the staff more professional," said Kabbaj in Abidjan last week after he astounded delegates by wrapping up his first annual general meeting a day early. "People said they had never seen an ADB meeting like this before, with no political in-fighting and things running on time."

The governors were last week unanimous in praising Kabbaj, who has quickly restored consensus to the bank at the same time as tackling difficult reforms.

A former specialist in economic affairs in the Moroccan prime minister's office, the new president was chosen to succeed Babacar Ndiaye of Senegal after three months of acrimonious debate among the bank's members. An advocate of liberal economic reform in Africa, he has also previously held various management positions with big Moroccan companies, and spent 13 years on the executive board of the International Monetary Fund.

Not everyone has enjoyed his arrival. Some 240 staff have lost their jobs, and some of those who remain are demoralised. But Kabbaj has the backing of the 70 or so governments which make up the bank's shareholders; and he has the advantage of being a Francophone, like the majority voting bloc in the ADB. Coming from North Africa, the region which borrows most from the ADB, also helps, and as a former IMF director, he appeals to the non-African members who now provide most of the bank's funds.

Last week's commitment of nearly $3bn for the African Development Fund set the non-African donors' seal of approval on the new ADB.

The deal ends two and a half years without any new money for 75 per cent of the ADB's borrowers, and it means that the shareholders – especially the donors like the US, France, Germany and Japan – believe that the ADB is now heading in the right direction.

ADB president Omar Kabbaj: restoring consensus

Swiss move for Lazard duo

Investment bankers in London, New York and Switzerland are scratching their heads over the defection of Robert Agostinelli and Steven Langman from the 150-year-old Lazard Freres to join Union Bancaire Privée, the Swiss private bank, writes George Graham.

Agostinelli, who will join UBP in Geneva, is a mergers and acquisitions specialist who brought US-style takeover tactics to the UK market when he set up Goldman Sachs' London M&A operation in the 1980s.

He moved to Lazard Freres in 1987, heading its London office and then becoming senior managing director for investment banking in its New York office. In 1990 the magazine Institutional Investor picked him as one of its "Next Generation of Financial Leaders".

Now 42, Agostinelli will join UBP's executive management committee and oversee international private banking and worldwide advisory investment banking services.

Langman, who worked closely with Agostinelli at Goldman and Lazard, will be president and chief executive of UBP's new US subsidiary. Now 34, Langman in 1993 became the youngest person ever to be named managing director at Lazard Freres.

The idea for UBP, which was established in 1990 from the merger of Edgar de Picciotto's Compagnie de Banque et d'Investissements with TDB American Express, is to move upstream from asset management by providing comprehensive financial advisory services to owners of private companies.

But competitors are wondering how well Agostinelli's M&A skills and Wall Street address book will translate to the discreet world of private banking.

Paper chief for Thai exchange

The entirely electronic Stock Exchange of Thailand (SET) is going back into the world of paper on July 1 when Singh Tangtatsawas takes over as the bourse's new president, writes Ted Bardacke.

Singh, who was named last week, is currently deputy managing director of Siam Pulp & Paper, a subsidiary of the royal-owned Siam Cement conglomerate.

Although Singh, who holds an MBA from Wharton School of Business, once headed the fiscal planning office at Thailand's ministry of finance, his experience with capital markets, or regulatory issues, is scant.

That could be a good thing. Being president of the SET is a thankless job, with local retail investors demanding that the market always go up, foreign investors demanding better corporate disclosure (which is bound to make the market go down), and mutual funds pushing for the introduction of complicated instruments like derivatives and short-selling. The SET board searched for four months before finding someone would accept the job.

Being an outsider could allow Singh to act without stepping on the toes of friends in the industry. And his technocratic and royal connections could provide a base of support for him to tackle some of the more dubious practices at the exchange.

But that all depends on Singh's character. And that remains a mystery, as all the industry has to go on is one piece of paper: Singh's resumé.

Caspian lands a Mexican fish

Caspian, the emerging markets brokerage house launched last year by Christopher Heath – who guided Barings Securities to prominence in Asia in the 1980s – has netted another big name, writes Stephen Fidler.

Pedro Aspe, Mexico's finance minister from 1988 to 1994, is joining Caspian's strategy board. There he will sit alongside Robert McNamara, the former US Defence Secretary, and Wilfried Thalwitz, former senior vice president at the World Bank, among others.

This is only the second board appointment for Aspe, who is also a director of McGraw-Hill. Aspe, who has a PhD from the Massachusetts Institute of Technology, is chairman of Vector Casa de Bolsa, the stockbroking arm of the Monterrey-based Pulsar group. He also finds the time to teach economics as professor at the Technical University of Mexico.

He has been careful to avoid accusations of conflicts of interest. Pulsar, controlled by tycoon Alfonso Romo, was not associated with the Mexican privatisation programme and Caspian itself was not in existence while Aspe was minister.

Aspe kept a studiously low profile during Mexico's financial crisis last year following the devaluation that took place just three weeks after he left office. His obsession with avoiding devaluation while in office was indeed seen by some as exacerbating the crisis.

هكذا من الاعلام

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ YESTERDAY
Kerry Group A IR2.23p

■ TODAY
Air Products and Chemicals 9½% Nts 1997 £95
Asahi Beer Intl (Aust) 7.3% Gtd Bds 1996 Y730000
BAe Fin BV 8% Nts 1997 $800
Boosey & Hawkes 5.47p
Bradford & Bingley Sub FRN's 2005 £172.66
Bridgestone Corp 7¼% Bds 1998 Y725000
Do 7½% Bds 1999 Y725000
Do 7¼% Bds 2000 Y725000
Do 7¼% Bds 2001 Y725000
British Fitting 2.4p
Britton 1.8p
CIA 1.62p
CMG 3.2p
CS First Boston Fin BV Gtd Sub Cattles 4.45p
Clinton Cards 3.35p
FRN's 2003 $29.66
Datrontech 2.74p
Denmark (Kingdom of) FRN's 1998 £153.47
Emerging Mkts Country Inv Tst 0.4p
Export-Import Bank of Japan 6¼% Gtd Bds 2005 $62.5
Graham Group 3.8p
Grampian 4.3p
Graseby 3.9p
Halifax Bldg Soc FRN's 1997 £158.83
Housing Fin Corp 11½% Deb 2016 £5.75
Intec 6% Nts 1999 Y600000
Irish Permanent IR7p
Kobe Steel 5.8% Bds 1997 Y580000
Do 5.9% Bds 1999 Y530000
Legal & Gen Fin 6.84% Bds 2001 £1.71
Mowlem (J) 11½% Gtd Bds 2013 £1150
Osaka Gas 5¾% Nts 1998 $287.5
Royal Dutch Petroleum FL5.6
Sanwa Australia Fin Gtd Flg/Fxd Rate Nts 2004 £3094.48
Sanyo Elec FRN's 1998 Y23438
Savoy Hotel A 14p
Do B 7p
Sincere Navigation 3¾% Bds 2003 $375
Slough Estates 10% Bds 2007 £100
State Electricity Comm of Victoria 10½% Gtd Nts 2003 A$105
Stat-Plus 5.7p
Tokyo-Mitsubishi FRN's 2000 $24861.41
Toray Inds FRN's 1997 Y21644
United Friendly 17.5p
Do B 17.5p
Westpac Bkg 8% Sub Bds 1995 $400
Do FRN's 1998 £15.66
Wilson Bowden 7.2p

■ TOMORROW
Aegon NV FL1.75
Cassell 3p
Churchill China 7.55p
Clydeport 3p
Eksportfinans 10¼% Nts 1995 C$102.5
Elsevier NV FL10.41
Five Oaks Invs 0.35p
Prudential Corp 10.4p
Reed Intl 17p
Rotork 3.3p
Sweden (Kingdom of) 8¾% Bds 1996 £437.5
TI Group 8.75p

■ THURSDAY MAY 30
Bank of Montreal C$0.36
Capital Inds 2.7p
Chelsfield 1.65p
Christies Intl 2.15p
Cookson 4.5p
Golden Vale IR1.8p
IBC 5p
Kode Intl 1p
Kvaerner A NK6.5
Do B NK6.5
Laporte 14.5p
Litho Supplies 4.64p
Macfarlane (Clansman) 2.5p
Meristem 1.2p
New Guernsey Sec Tst 1p
Pemberstone 0.96p
Princedale 0.4p
State Electricity Comm of Victoria 12¼% Gtd Nts 2001 A$122.5
Thailand Intl Fd Ptg $0.2
Value & Income Tst 9¾% Deb 2026 £4.6875
Wescol 0.3p

■ FRIDAY MAY 31
3i Intl BV Gtd FRN's 1999 £160.25
Adscene 7¾% Red Cnv Prf 3.875p
Do 7.5% Sers 2 Red Cnv Prf 3.45p
Allied Domecq 5½% (3.85% net) Prf 1.925p
Do 7½% (5¼% net) Prf 2.625p
Allied Irish Banks Und FRN's $301.62
Do Und VRN's $166.11
Amey 4.7p
Andrews Sykes 3p
Atlas Convig Equip 15p
Australian Opportunities Inv Tst Cnv Uns Ln 1997 1.5p
Automotive Precision 3.3p
Avis Europe 11¾% Bds 1996 £117.5
BBA 6¾% Red Cnv Prf 3.375p
Bankers Inv Tst 1.13p
Do 3½% Prf £1.75
Bank of Scotland (Gov & Co of The) 9¼% Irrd Prf 4.625p
Do 9¾% Irrd Prf 4.875p
Do Und VRN's $159.72
Bristol (City of) 11½% Red 2008 £5.75
British Polythene Inds 11p
CLS 3.15p
Cap & Counties 6¾% 1st Mtg Deb 1995/2000 £3.4375
Cater Allen Gilt & Fxd Inc Fd Ptg Red Prf (Gilt Inc Fd) 9p
Do Ptg Red Prf (High Yld Gilt Fd 2000) 20p
Chase Manhattan Sub FRN's 1997 $142.15
Clayhithe 9½% Sub Cnv Uns Ln 2000/01 £4.75
Collateralised Mortgage Secs (No 5) Mtg Bkd FRN's 2027 £95.43
Do (No 7) A2 Mtg Bkd FRN's 2028 £111.47
Do A3 Mtg Bkd FRN's 2028 £170.61
Do (No 9) A3 Mtg Bkd FRN's 2033 £169.86
Do (No 10) 11¾% Secd Bds 1998 £587.5
Co-operative Bank 4.625p
Cropper (J) 9% Uns Ln 1994/99 £4.5
Dowsongroup 4p
Doeflex 4.6p
Dumyat Inv Tst 0.48p
Dunlop Plants 6% (4.2% net) Prf 2.1p
Eclipse Blinds 1p
Elec & Gen Inv 10¾% Deb 2011 £5.375
Exco 8p
Exmoor Dual Inv Tst Inc 1.8p
Fleming Geared Inc & Assets Inv Tst 6.3-13.3% Ptg Prfd 6.65p
Fleming (R) Netherlands BV Prim Cap Und Gtd FRN's $320.89
Forward Tech 1.75p
Gartmore British Inc & Growth Tst Geared Inc 2.1p
Do Units 2.1p
Geared Inc Inv Tst 3.165p
Glasgow Inc Tst 0.6p
Glaxo Wellcome 6¾% Nts 2000 $67.5
Global Group 0.4p
Goodhead 7% Cnv Red Prf 3.5p
Grand Metropolitan Fin 9% Bds 2005 £90
Group Tst 1.17p
Hafslund ASA A NK5
Do B NK5
Hays 2.6p
Hemingway Props 0.35p
Henderson Highland Tst 1.5p
Homer Fin (No 2) A Mtg Bkd FRN's 2030 £92.91
Do B Mtg Bkd FRN's 2030 £203.26
Hunting 8¼% Cnv Prf 4.125p
Hydro-Quebec 15% Ln 2011 £7.5
ISA Intl 1.65p
Independent Insce 6.65p
Intereurope Tech Svs 1p
Johnson Fry 2p
Jove Inv Tst Inc 4.2p
Kakuzi KS1.25p
Keller 3.55p
Kiln Cap 2p
Kleinwort Benson Prim Cap Und FRN's $308.18
Do Prim Cap Und FRN's Sers 2 $308.18
Kleinwort Charter Inv Tst 4% Prf £2
Langdons Foods 0.1p
Lloyds Bank Prim Cap Und FRN's Sers 2 $138.96
Manders 8.4p
Marley 2.6p
Mayborn 4.95p
McAlpine (A) 4p
Metalrax 3p
MICE 0.085p
Midland Bank 14% Sub Uns Ln £7
Mistergate 10% Prf 2.377p
Mithras Inv Tst 0.25p
Moss Bros 13p
Natl Westminster Bank Prim Cap FRN's Sers C $137.36
Newman Tonks 4p
Partco 4.75p
Paterson Zochonis 7½% Prf 3.75p
Do 10% Prf 5p
Peel 5¼% Cnv NV Prf 2.625p
Persona 3.35p
RAP 3p
RMC Cap 8¾% Cnv Cap Bds 2006 £43.75
Rackwood Mineral 2p
Ragby Gtd FRN's Aug 1997 $14291.94
Do Gtd FRN's Oct 1997 $4854.51
Do Gtd FRN's 1998 $14291.94
Royal Bank of Scotland 5½% (3.85% net) Prf 1.925p
Do 11% (7.7% net) Prf 3.85p
Ruberoid 4.2p
St Modwen Props 8½% Red 2nd Prf 4.25p
Sedgwick 7¼% Cnv Bds 2008 £181.25
Severfield-Reeve 2p
Specialeyes 10% Cnv Uns Ln 2000 £5
Standard Chartered 7.75p
Do Sub FRN's 1996 £79.02
Sterling Publ 6% Cnv Red A Prf 2000 3p
Stoddard Sekers Intl 4% Prf 2p
Sun Alliance 7¼% Cnv Sub Bds 2006 £36.25
Swallowfield 3.6p
THFC (Indexed 2) 5½% IL 2024 £2.872
Do 5½% IL 2024 B £2.4352
TMC PIMBS Fifth Fin No 8 2028 £47
Do No 1 2030 £160.06
Do Seventh Fin A No 8 2031 £52.25
Do B 2031 £174.39
TR City of Lon Tst 1.42p
TR Smaller Co's Inv Tst 10½% Deb 2016 £5.25
TSB Hill Samuel Bank Perp FRN's $308
TT Fin 11⅝% Gtd Deb 2018 £5.65625
Tate & Lyle 7½% Cnv Red Prf 3.525p
Throgmorton Tst 12⅝% Deb 2010 £8.15625
Do 7¼% Cnv Uns Ln 2003 £3.625
Tibbett & Britten 11.2
Tokyo-Mitsubishi Intl Dual Basis Sub Nts 2004 $71250
Trust Union Fin (1991) 8⅛% Deb 2008 £4.0625
Urban Mortgage Bank of Sweden Sub FRN's 2001 $18278.17
VCI 4.9p
Wells Fargo Sub FRN's 2000 $47.9

■ SATURDAY JUNE 1
Cater Allen 5% (3½% net) Prf 1.75p
Do 4.2% 2nd Prf 2.1p
F&C Inv Tst 4¼% Perp Deb £2.125
Fleming Inc & Cap Inv Tst 1.7p
Do Units 1.7p
Fleming Mercantile Inv Tst 4¼% Perp Deb £2.125
Ford Motor $0.35
General Cons Inv Tst 4¼% (2.975% net) A Prf £1.4875
Genfinance NV 11.49% Ln 2007 £57.45
Govett Oriental Inv Tst 5% (3½% net) Prf 1.75p
Great Portland Estates 9½% Cnv Uns Ln 2002 £4.75
Harris (P) 7½% (5¼% net) Prf 2.625p
Do 8% (5.6% net) Prf 2.8p
Kirklees Metropolitan Council 11.6% Red 2031 £5.8
Law Debenture 4½% Deb £2.25
Lewis (J) Partnership 5% (3½% net) Prf 1.75p
Do 7½% (5¼% net) Prf 2.625p
London (County of) 2½% Cons £0.625
Do 3% Cons £0.75
Monks Inv Tst 11% Deb 2012 £5.5
Save & Prosper Linked Inv Tst 15.5p
Unigate 6½% Uns Ln 1992/97 £2.724658
Union Carbide $0.1875
Wright (J) Weaving 4½% (3.15% net) Prf 1.575p

UK COMPANIES

■ YESTERDAY
COMPANY MEETINGS:
Chepstow Racecourse, Chepstow Racecourse, Chepstow, Gwent, 12.00

■ TODAY
COMPANY MEETINGS:
Atlas Converting Equipment, 4 Broadgate, E.C., 10.00
Avonside Group, Unit 5, Holden Road Trading Estate, Holden Road, Leigh, Lancashire, 3.00
Cairn Energy, Cairn House, 61 Dublin Street, Edinburgh, 10.30
Macfarlane Group (Clansman), The Merchants House, 7 West George Street, Glasgow, 12.00
Queens Moat Houses, Queen Elizabeth II Centre, Broad Sanctuary, Westminster, S.W., 11.30
Provident, 28 Finsbury Square, E.C., 10.00
Ruberoid, New Broad Street House, 3 New Broad Street, E.C., 10.00
Taylor Nelson, Westgate, W., 11.30
BOARD MEETINGS:
Finals:
Blacks Leisure
British Inv Trust
Delyn Group
Euclidian
M&G Recovery Inv Trust
Monks Inv Trust
Plysu
Interims:
Dunedin Worldwide
Kleinwort Euro Privatisation
M&G Income Inv Trust
Smart (J)

■ TOMORROW
COMPANY MEETINGS:
Amco, Amco House, 25, Moorgate Road, Rotherham, 3.00
Aspen Communications, 136 Bishopsgate, E.C., 10.30
Automated Security, The Barber Surgeons' Hall, Monkwell Square, E.C., 11.00
Baird (W), The Balmoral Hotel, 1 Princes Street, Edinburgh, 12.00
Bourne End Properties, 5 Wigmore Street, W., 12.00
Capital Industries, Butterfly House, St Neots, Huntingdon, Cambridgeshire, 11.00
Derwent Valley, Durrants Hotel, George Street, W., 10.30
Ers, Forte Posthouse, Breakspear Way, Hemel Hempstead, Hertfordshire, 12.00
Johnson Fry, 20 Regent Street, S.W., 10.00
Linton Park, The Royal Overseas League, Overseas House, Park Place, St James Street, S.W., 12.00
New Guernsey Securities Trust, 7 New Street, St Peter Port, Guernsey, 12.00
Nurdin & Peacock, The Brewery, Chiswell Street, E.C., 11.30
Princedale, 222 Gray's Inn Road, W., 12.00
Ramco Energy, The Marcliffe at Pitfodels, North Deeside Road, Aberdeen, 12.30
Sentry Farming, Blagdon Home Farm, Seaton Burn, Newcastle upon Tyne, 12.00
Tibbett & Britten, Fountain Hall, 1 Cloth Fair, E.C., 11.00
UniChem, UniChem House, Cox Lane, Chessington, Surrey, 2.30
Venturi Inv Trust, Burne House, 88 High Holborn, W.C., 3.30
BOARD MEETINGS:
Finals:
Anglian Water
Borthwicks
Bristol Evening Post
Dawson Intl
Steel Authority
Tamaris
Tandem Group
Interims:
Abacus Polar
Carlton Communications
Finsbury Growth
Guinness Flight Extra Income
McLeod Russel

■ THURSDAY MAY 30
COMPANY MEETINGS:
Alpha Airports, Heathrow Excelsior Hotel, Bath Road, West Drayton, Middlesex, 11.00
BSG International, National Motorcycle Museum, Coventry Road, Bickenhill, Solihull, West Midlands, 11.30
Beauford, 2 Lisbon Square, Leeds, 11.00
Bridon, Carr Hill, Doncaster, 12.00
City Centre Restaurants, The George Inter-Continental Hotel, 19-21 George Street, Edinburgh, 11.00
French Connection, 1 Old Burlington Street, W., 11.00
Global Group, Butchers Hall, Bartholomew Close, E.C., 10.30
Henderson Highland Trust, 3 Finsbury Avenue, E.C., 10.30
House of Fraser, The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, S.W., 11.00
Jackson Group, Seckford Hall Hotel, Woodbridge, 12.00
Moss Bros, 8 St Johns Hill, S.W., 10.30
Portmeirion, London Road, Stoke-on-Trent, 2.30
Quicks Group, Centre House, Ashburton Road East, Trafford Park, Manchester, 12.00
RAP Group, 10 Snow Hill, E.C., 12.00
Redland, Plaisterers Hall, 1 London Wall, E.C., 12.15
BOARD MEETINGS:
Finals:
David Glass Associates
Kleinwort Emerging Markets Trust
Korea Liberalisation
London Intl
Mid-Kent
South West Water
Wamford Investments
Interims:
Bett Brothers
Edinburgh New Tiger Trust
M&G Group
Ransomes
Sperall (CA)

■ FRIDAY MAY 31
COMPANY MEETINGS:
Brooks Service, The Grand Hotel, Broad Street, Bristol, 3.00
BP Petroleum, 30 Buckingham Gate, S.W., 12.30
HSBC Holdings, The Barbican Hall, Barbican, E.C., 11.00
MAID, 48 Leicester Square, W.C.
New City & Commercial Inv Trust, 11 Devonshire Square, E.C., 12.00
RMC Group, Four Seasons Hotel, Hamilton Place, Park Lane, W., 11.30
Ulster Television, Havelock House, Ormeau Road, Belfast, 12.00
BOARD MEETINGS:
Finals:
Finsbury Trust
Property Partnerships
Stretchley
TR Property Inv Trust

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

CONTRACTS & TENDERS

FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / Gerard Baker in Tokyo

The semiotics of the mega-loss

The semiotics of financial accounting are rather different for banks than for most other companies. When a car maker or steel manufacturer reports its worst ever loss, it is a fair bet that it signals a sudden crisis. Usually, external events have conspired with poor management to produce the deficit, and a prolonged period of uncertainty follows.

But for banks, especially Japanese ones, losses signal something different. They often represent a conscious management decision to clean house, at a time chosen by them, a change of policy as much as a change of fortune.

So it is with Japan's banks this summer. Last Friday the nation's largest lenders, the city banks, reported between them pre-tax losses worth a combined Y1,500bn ($14.3bn) for the year to the end of March. Yesterday the trust banks and long-term credit banks announced more. In all, the big 21 banks lost nearly Y3,000bn – a sizeable sum to be poured away in one afternoon with a few strokes of the accountant's pen.

It is the sheer scale of those losses that has impressed many observers of the banking system. The beleaguered banks, it is claimed, have finally bitten the bullet of bad loans accumulated during the collapse of the property market that began five years ago. Having done so, they have gone some way to dispelling the large cloud of uncertainty hovering over the financial system and the economy as a whole.

The figures certainly suggest an impressive leap forward in the process of the balance sheet clean-up. Altogether, the 21 leading banks wrote off about Y10,000bn in bad loans. According to the finance ministry, the move has wiped away more than half of the remaining irrecoverable debts in the system.

Adding to the big 21 banks the thousands of regional and smaller banks throughout the country, the ministry says that last September, financial institutions had Y38,000bn in total non-performing loans. Of those, about Y7,000bn were covered by bad loan reserves. The ministry estimates that taking into account a reasonably conservative recovery rate of all loans, they still had to clear a total of Y18.5bn in probable extra losses.

With their aggressive accounting for 1995-96, banks have sliced away a large chunk of that. The MoF now says total outstanding bad loans as of the end of March are Y34,700bn, and that loan loss reserves now total Y12,500bn. On the same assumptions about recovery rates, the remaining gap to be filled is now Y8,300bn. On that basis, the ministry says, the whole asset quality problem should be largely eliminated in the next year or two.

But there are two good reasons to doubt that sanguine prognosis.

The first is that 1995-96 was a quite exceptional year for banks. Thanks to the lowest short-term interest rates in the country's history, and a steepening yield curve, the big 21 banks were able to make their largest ever operating profit – Y4,800bn – a sum that provided almost half the money needed for the write-offs. That performance will not soon be repeated. Short-term interest rates have almost certainly now hit bottom. Though they may not rise much in the immediate future, they will surely not fall again – and it is the dynamics rather than the statics of interest rate changes that most affect banks' earnings.

In addition, the yield curve is now unusually steep, as the Bank of Japan has held down short-term rates while market expectations of future inflation have pushed bond yields higher. A flattening, rather than a further steepening of the yield curve is, therefore, more likely in the next year, and that too will make it harder for banks to earn such impressive profits.

Banks were further helped last year by a strong stock market. Equity prices rose by more than 25 per cent in the year 1995-6. That gave banks a valuable cushion – they count up to half of their capital in the form of unrealised equity gains, so a soaring market enabled them to shoulder the big losses from write-offs without endangering their capital adequacy ratios.

But the second and ultimately bigger problem is that there is no solid evidence yet that the volume of new bad loans is really declining sharply. According to the finance ministry, the total figure for bad loans declined by more than Y3,000bn between September and March – but at least Y5,000bn was directly written off the balance sheet by the big banks. That suggests the gross bad loan figure was in fact still rising.

The difficulty is still one of opacity. Problems continue to crop up at Japan's banks from hitherto barely-heard-of affiliated companies, related smaller financial institutions and other lenders who, in the last resort will rely on bigger banks for help. The scale of these problems suggest that the great bad loan clear-out of 1996 will prove to have been a valuable first step out of the mire, but probably not much more than that.

Japan's bad debt clear-out

All financial institutions (Ybn)	March 1996	Sept 1995
A. Total non-performing loans	34,682	38,086
B. Specific loan loss provisions	12,504	6,957
(A-B)	22,178	31,125
Estimated amount of bad loan to be disposed of	8,319	18,587
Net operating profit	8,407	5,127*

* Annual average 1990-94

Source: Ministry of Finance

Total return in local currency to 23/5/96

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.01	0.06	0.07	0.18	0.11
Month	0.45	0.05	0.28	0.32	0.79	0.51
Year	6.25	1.44	4.69	6.63	11.03	7.38
Bonds 3-5 year						
Week	0.17	0.39	0.26	0.30	0.70	0.28
Month	0.07	0.68	0.32	0.62	1.73	0.71
Year	5.24	3.59	9.25	12.67	21.34	8.97
Bonds 7-10 year						
Week	0.32	0.69	0.29	0.49	1.11	0.21
Month	-0.29	1.02	0.04	0.58	2.63	0.60
Year	4.50	3.97	9.43	14.48	28.49	8.05
Equities						
Week	1.6	-2.2	1.3	-0.2	0.7	-0.1
Month	3.8	-2.7	0.3	0.6	0.4	-1.9
Year	30.5	30.3	22.8	13.2	6.1	18.6

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE — Compiled By AFX News

Sharp rise likely for Japanese electronics

Hitachi, Toshiba and ***Mitsubishi Electric***, the Japanese integrated electronics makers are today expected to announce sharply higher earnings in the year to March as a result of strong microchip prices. Analysts warn potential gains would be offset, in part, by a poor performance in other divisions such as home electronics.

Hitachi's pre-tax profits are expected to be between Y345bn and Y360bn ($3.2bn-$3.4bn), compared with Y283bn the previous year. Turnover is expected to reach between Y7,930bn and Y7,950bn, up from Y7,590bn. Hitachi itself forecast pre-tax profits of Y340bn on revenue of Y7,900bn.

Analysts said Hitachi's earnings growth came mostly from microchip sales, while home electronics remained stagnant amid restructuring. Among the electronics makers, Hitachi had the largest semiconductor chip sales and exports at the group level, analysts said. "Hitachi's growth simply comes down to semiconductor sales," said Mr Etsuro Ogisu of Lehman Brothers.

Mr Azuma Masatomo of Yamaichi Research Institute estimated Hitachi's operating loss in the consumer electronics division at about Y15bn, down from Y30.1bn a year earlier. *AFX Asia, Tokyo*

■ **ING**: The Netherlands-based banking group is expected to report first-quarter net profits on Thursday of between Fl 512m and Fl 577m ($300m-$338m), or between Fl 3.04 and Fl 2.15 a share, compared with Fl 530m, or Fl 1.92 a share, a year earlier, according to analysts' forecasts.

Analysts expected ING's banking arm to show robust profit growth, largely as a result of the favourable climate on financial markets.

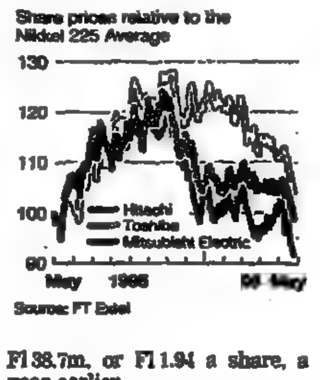
ING's insurance business should benefit from market trends. "The share still has room to outperform the rest of the financial sector. The benefits of the Barings acquisition, for example, are still not yet fully realised," said one analyst. *AFX News, Amsterdam*

■ **Fortis**: The Netherlands-based financial services group is expected to report first-quarter net profits today of between Ecu134m and Ecu137m ($164m-$168m), compared with Ecu122m a year earlier, according to analysts. Net profits for Dutch parent company Fortis Amev are expected to rise to Fl 150m-Fl 154m, or Fl 2.06-Fl 2.10 a share, compared with Fl 38.7m, or Fl 1.94 a share, a year earlier.

Analysts expect Fortis's profit growth to be underpinned by stable growth in its life insurance businesses and a continued recovery in earnings from non-life business. *AFX News, Amsterdam*

Japan

Share prices relative to the Nikkei 225 Average



Source: FT Extel

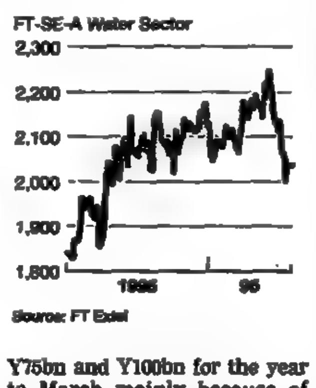
■ **Nissan**: The Japanese motor group is today expected to report a pre-tax loss of between Y75bn and Y100bn for the year to March mainly because of losses offshore, especially at its Mexican unit. Nissan has not released a forecast for the year. Last year Nissan reported a pre-tax loss of Y223.26bn on revenue of Y5,830bn. Analysts said the expected improvement in the figures reflects stronger parent company earnings after improved domestic sales.

"Mexico Nissan is the key negative factor to Nissan's consolidated earnings but is expected to be offset in part by improved parent level earnings," an analyst at Daiwa Research Institute said. He forecast Nissan's annual pre-tax loss at Y75bn on revenues of Y5,900bn. The lower output and poor earnings of the Mexican unit because of the devaluation of the peso would weigh heavily in the accounts, analysts said. Losses are also expected from other overseas units in Spain, the UK and Thailand.

Analysts said the increase in domestic sales will mainly reflect the installation of extra safety equipment in new models at no extra cost, which put Nissan ahead of Toyota in the first half. *AFX Asia, Tokyo*

UK water

FT-SE-A Water Sector



Source: FT Extel

■ **Anglian Water**: The UK utility kicks off the results season for the water sector tomorrow.

With the sector underperforming the market by some 10 per cent in the past month analysts are expecting relatively large dividend increases. NatWest Markets believes growth of less than 10 per cent will be "atypical".

Anglian is expected to announced pre-tax profits of about £235m ($357m), compared with £216m last year, which was flattered by a £14m rebate package. The group's non-core process engineering and international operating activities are expected to make a loss of about £5m for the full year. A total dividend of just over 29p is expected, up 11 per cent from last year (26p).

The bids for **South West Water** by rival utilities Severn Trent and Wessex are being considered by the Monopolies and Mergers Commission. Analysts believe the company will want to keep some powder dry for its defence when it announces its results on Thursday. Pre-tax profits of just over £100m will represent an increase of about 8 per cent on last year's pre-exceptional £98.7m. However, a dividend increase of about 7 per cent is predicted with a total of just over 29p, up from 27.3p.

Forecasts range widely for **United Utilities** when it also reports on Thursday as analysts complain that comparisons with last year are "meaningless" because of the contribution from Norweb, the regional electricity company acquired at the end of last year. A post-exceptional profit of some £352m with a dividend of about 32p is expected.

■ **London International Group**: The UK condom and rubber glove manufacturer, which is two-thirds through a three-year recovery programme, is expected to report steady progress in its annual results. Analysts are forecasting pre-tax profits for the year to March 31 of £25m-£26.5m, up from £15.2m.

INTERNATIONAL EQUITIES By Tom Burns in Madrid

Spain steps up public sector sell-off

A business-friendly government is not a prerequisite for privatisations but it is helpful to have one. The sell-off of Spain's public sector began in the late 1980s with the Socialists, and the new centre-right government intends to step up the pace.

It is backing sell-offs because, like the previous administration, it is committed to monetary union and views privatisation as a short cut to reducing the state deficit.

In some cases, the disposals are simply a matter of finishing off the privatisation process. During the past year state-owned equity has been reduced to 10 per cent in Repsol, the oil, gas and chemicals group, to 21 per cent in Telefónica, the telecoms operator, and to 25 per cent in Argentaria, the banking corporation.

In others, further privatisation is more complicated because it requires a reassessment of the company's role in the public sector before it is sold. The hugely profitable Endesa group, the dominant electrical utility which is 66 per cent state-owned is a case in point.

Endesa presents problems because it is the cash-cow for a clutch of lossmaking companies and because it is in the middle of a diversification that has involved big investment in petroleum, mobile telephony and cable television.

There is a strong lobby seeking the break-up of Endesa although the new industry minister, Mr Josep Piqué, has indicated that he opposes the unbundling of the group.

However, before any of these jewels in the state's corporate crown are presented to the markets there are two issues that have to be resolved. The first concerns the appointment of new chief executives to the partially privatised companies and whatever business strategies they might outline. The second has to do with the creation of a privatisation office that has been promised by the new government.

Argentaria already has a new president, stockbroker Mr Francisco González, and he has already signalled that he intends to limit voting rights in order to ward off takeovers and guarantee stability.

The likelihood is that, under the spoils system that accompanies the arrival of a new administration, new bosses will be named to run Telefónica and Repsol but that, in contrast, Mr Feliciano Fuster, the chairman of Endesa, will remain at the helm as he is due to retire within the next two years.

The prospect of a change at Repsol has unsettled the markets for analysts award high marks to chairman Mr Oscar Fanjul. The share price has also been rattled for technical reasons – the Barcelona savings bank La Caixa announced last week that it had completed the acquisition, on the open market, of a 5 per cent stake in Repsol – and by disappointing first quarter results.

A change at Telefónica begs the question of whether the operator will, under a new management, continue the aggressive expansion in Latin America that was put in motion by its current chairman Mr Cándido Velázquez. There are also doubts over whether the Popular party will stick to the policy of a full deregulation of domestic telecoms by 1998 that was adopted by the Socialist government.

The privatisation office, whose chief executive has still to be appointed, is, something of an unknown quantity. It is not clear whether it will have powers over all companies linked to the public sector, some of which are controlled by the finance ministry while others are run by the industry ministry, nor whether it will have a say in the privatisation of water companies, railways, motorways, port authorities and airports which are run either by the development ministry or by regional governments.

FT/S&P ACTUARIES WORLD INDICES

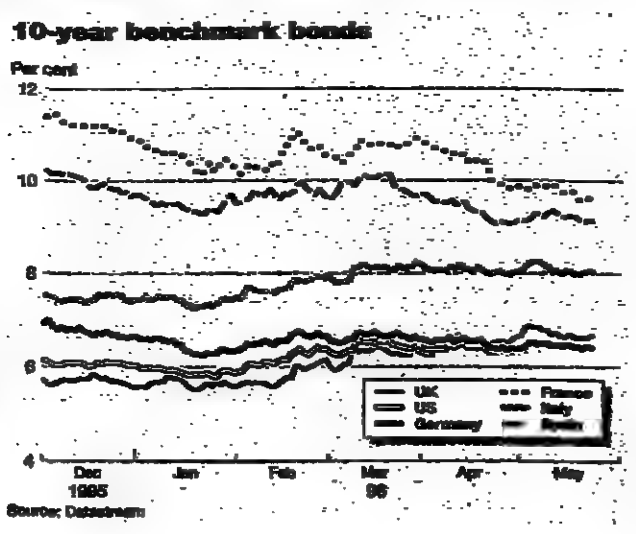
The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY MAY 24 1996								THURSDAY MAY 23 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (80)	205.13	-0.6	201.03	139.62	164.38	172.40	-0.2	4.26	206.28	202.18	139.22	165.20	172.74	212.18	162.68	168.62
Austria (25)	189.84	-0.2	186.04	129.21	152.13	152.04	-0.1	1.84	190.24	186.46	128.40	152.38	152.28	199.28	168.11	189.61
Belgium (27)	210.81	-0.2	206.40	[illegible]	168.78	164.58	-0.2	4.05	211.11	206.91	142.48	169.07	164.88	215.81	186.06	190.87
Brazil (29)	167.89	0.4	164.53	114.27	134.54	307.99	0.4	2.11	167.26	163.94	112.89	133.95	306.67	171.05	123.97	149.44
Canada (99)	164.10	0.3	160.81	111.69	131.50	163.34	0.2	2.33	163.56	160.31	110.39	130.99	162.37	164.84	134.14	141.44
Denmark (30)	296.04	-0.3	290.11	[illegible]	237.23	239.63	-0.2	1.67	296.95	291.05	200.42	237.82	240.18	305.17	275.65	276.85
Finland (23)	193.39	0.4	189.52	131.63	154.98	[illegible]	0.7	2.59	192.56	188.73	129.97	154.22	191.73	276.11	171.73	207.30
France (97)	194.78	0.2	190.88	132.57	156.09	159.36	0.2	[illegible]	194.33	190.47	131.16	155.64	159.00	198.39	167.70	180.96
Germany (60)	167.74	[illegible]	164.39	114.17	134.42	134.42	-0.7	1.86	169.07	165.71	114.11	135.40	135.40	174.38	151.89	151.89
Hong Kong (58)	432.87	-0.1	424.21	294.62	346.88	429.91	-0.1	3.31	433.31	424.70	292.46	347.03	430.33	451.19	348.81	365.03
Ireland (16)	278.47	-0.2	272.90	189.54	223.15	251.40	-0.1	3.41	278.91	273.37	188.25	223.38	251.78	280.08	222.97	222.97
Italy (58)	82.15	-0.8	80.50	55.91	65.83	95.69	-0.7	2.29	82.78	81.13	55.87	66.30	96.37	84.53	67.22	74.34
Japan (481)	154.63	-0.6	151.54	105.25	123.91	105.25	0.2	0.72	155.60	152.51	105.02	124.62	105.02	164.88	137.76	148.58
Malaysia (107)	564.33	0.8	553.04	384.10	452.23	541.23	0.8	1.65	559.59	548.48	377.69	448.17	537.18	585.09	425.77	529.99
Mexico (18)	1308.59	-0.2	1282.40	890.66	1048.64	10583.94	0.1	[illegible]	1310.77	1284.73	884.69	1049.77	10579.34	1325.65	791.99	1004.31
Netherland (19)	295.04	-0.2	289.13	200.81	236.43	232.18	-0.1	3.09	295.60	289.73	199.51	236.74	232.45	295.60	243.31	243.31
New Zealand (15)	79.52	-0.2	77.93	54.12	63.72	81.72	-0.2	4.45	79.68	78.10	53.78	63.82	61.84	85.49	76.26	82.08
Norway (35)	246.37	0.1	241.44	167.68	197.43	220.57	0.1	2.08	246.15	241.26	166.13	197.14	220.32	255.75	218.47	218.47
Singapore (44)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa (45)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain (37)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden (48)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland (38)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thailand (46)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
United Kingdom (201)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA (625)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas (771)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Europe (715)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nordic (136)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Basin (832)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Euro-Pacific (1547)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North America (725)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Europe Ex. UK (514)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Ex. Japan (351)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. US (1737)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. UK (2162)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. Japan (1882)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
The World Index (2363)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MARKETS: This Week

INTERNATIONAL DEBT MARKETS By Richard Adams and Samer Iskandar

Political doubts cloud prospects in New Zealand



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	4.60[1]	9.00	6.00[2]
Overnight	5.13	0.44	3.25	3.68	9.05	5.83
Three month	5.17	0.42	3.21	3.75	8.87	6.06
One year	5.62	0.84	3.30	3.83	8.40	6.30
Five year	6.41	2.28	5.14	5.49	8.96	7.58
Ten year	6.66	3.26	6.41	6.43	9.60	8.04

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

New Zealand's attractive economic outlook may make it the pin-up star of economists the world over, but its government and Treasury must be scratching their heads over why its bonds suffered what one broker called a "bloodbath" late last week.

New Zealand is the only member of the Organisation for Economic Co-operation and Development able to run budget surpluses, reduce net public debt and increase social spending, Mr Bill Birch, the finance minister, said, announcing his budget on Thursday.

But despite that claim, the day following Mr Birch's budget saw yields at the long end of the bond curve close 25 basis points higher, while bonds at the short end finished about 15 basis points up in yield. Ten-year bonds closed at 203 basis points above the yield of their US counterparts, the widest spread since early 1992.

Adding to the ugly picture for the local debt market was the 90-day bank bill yield finishing at 10.01 per cent, its highest close since the middle of May 1991, apart from a brief intra-day level of 10.05 per cent in late 1994.

And all this in a country with inflation at 2.1 per cent, and an independent central bank committed to keeping price rises at 2 per cent or below, leaving spectacular real yields.

Brokers can point to two reasons why the disparity exists between New Zealand's rosy fundamental outlook and the high yields being demanded by the market: political uncertainty, and a lack of liquidity.

The ruling National party-led coalition faces a general election in October, the country's first using proportional representation. The new electoral system, based on Germany's "mixed member" system, has led to some seismic shifts in the political landscape of one of the world's most stable two-party systems.

The centre-right National party has seen its opinion poll ratings slip to 40 per cent, following growing support for the populist New Zealand First party. New Zealand First advocates altering the central bank's sole focus on price stability to include growth and employment as well, and is viewed as a real risk by the market.

"It's people pricing in political risk," one bond dealer said. "It's enough of a threat that it's keeping people out, and those that want to sell are finding it very difficult to find bids," he said.

Another problem is that the government itself is contributing to the lack of liquidity. In the budget the government announced the privatisation of the Forestry Corporation, owner of the largest Radiate pine plantation forest in the world, and plans to use the proceeds to scale back its planned issue of regular bonds from NZ$2bn to NZ$1bn, with the balance going to retire one-year Treasury bills and early repurchases of July 1997 bonds.

One trader said: "This may be the last calendar year we have a government bond tender for a long, long time. Now we'll find out for sure if supply or liquidity is an issue of greater influence for bond prices."

RA

Cades adopts a short-term bias

Cades, the French government agency created to manage the accumulated debts of the social security system, has finalised its borrowing plan in record time, less than one month after revealing its intention to tap the domestic and international debt markets for the equivalent of FFr140bn.

Short-term instruments will dominate the borrowing programme. Up to FFr90bn – or 64.3 per cent of the programme's total amount – matures in one year or less.

After deducting the reimbursement of nearly FFr11bn in principal, almost FFr80bn could require refinancing before end-June 1997.

However, the reliance on short-term instruments might be reduced if Cades were to increase the amount of its planned bond issues.

Caisse des Dépôts (CDC) and Société Générale will manage the issuance of the bonds, maturing in 2002 and 2007. The indicated amount is FFr25bn.

On Friday, Cades launched the final leg of its four-part financing scheme, a FFr50bn domestic commercial paper programme *(billets de trésorerie)*, of which FFr35bn should be issued by the end of June.

The paper will be placed, starting today, by the following institutions: BNP, Banques Populaires, CDC, Crédit Agricole, CCF, Crédit Lyonnais, Indosuez, Louis Dreyfus Finance, Paribas and SocGen.

Meanwhile, a two-tranche FFr60bn revolving credit facility arranged by six banks was reported to be oversubscribed, one week after it went into syndication. Cades also released last Friday the list of dealers in a global commercial paper programme arranged by Lehman Brothers. The euro-CP dealers are Lehman, BZW, Deutsche Morgan Grenfell, Goldman Sachs and SBC Warburg. Dealers in the US tranche are Lehman, Goldman Sachs and Merrill Lynch. Paying agent is Chase Manhattan.

SI

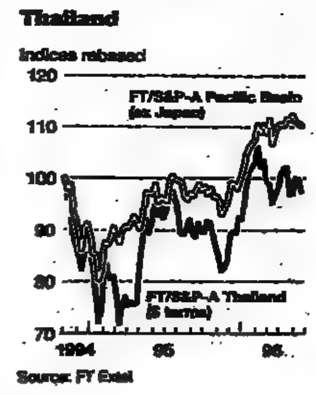
NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Pacific Electric WACo(a)§	100	Jan 2006	1.625	100.00	-	-	Bankers Trust Intl
RPM Capital(b)§	65	May 2006	2.75	100.00	-	-	Salomon Brothers Intl
Bear Stearns Companies(c)‡	250	Jan 2001	(c1)	99.76R	-	-	Bear Stearns Intl
Inter-American Dev Bank(d)	200	Dec 1999	6.25	99.60R	6.30	flat(6¾%-99)	SBC Warburg
World Bank	1bn	May 2001	6.375#	99.742R	6.437	+7(6¼%-01)	CSFB/Goldman Sachs
First USA CCMT, 96-3, A(g)‡	400	Jan 1999	(g1)	100.00R	-	-	UBS
Federal Home Loan Mtg Corp	300	May 2006	6.75	99.206R	6.862	+25(6⅞%-06)	Nomura International
DSL Bank(h)	300	Jun 1998	6.00	99.90R	6.054	-36(5⅞%-98)	Nomura/SBC Warburg
Empresas ICA	150	May 2001	11⅜#	99.99R	11.88	+550(6¼%-01)	ING Barings
Cie Financière de CIC(k)‡	100	undated	(k1)	99.55R	-	-	Chemical Inv Bank
Unibanco	100	Jan 1997	7.875#	99.93R	7.949	+235(T-bill)	SBC Warburg
Republic of Turkey	500	Jan 1999	8.25#	99.895R	8.290	+210(5¾%-98)	JP Morgan Secs/UBS
Republic of Colombia	400	Jan 2001	8.00	99.776R	8.056	+150(M 5yr)	Salomon/SBC Warburg
Ixe Export Trust 96-1(o,l)	300	May 2001	10.125	100.00	10.52	+3⅞%(M 5yr)	CS First Boston
BNCE	250	May 2006	11.25#	98.177R	11.39	+470(6⅞%-06)	Bankers Trust Intl
PepsiCo(p)	150	Dec 1999	6.375	99.821R	6.448	+13(5⅞%-99)	Deutsche Morgan G'fell
Den Danske Bank(q)‡	100	Jun 2006	(q1)	100.00	-	-	Salomon Brothers Intl
Her Majesty in right of Canada	1bn	May 2001	6.50#	99.832R	6.540	+14(M 5yr)	Goldman/MStanley/RBC
Banco BCN Barclays(r)	60	Jul 2004	9.60#	99.59R	9.667	+340(6¾%-99)	BZW
D-MARKS							
Deutsche Ausgleichsbank	1bn	May 2006	6.50	100.085	6.488	-	ByV/Comz/DG/Dresd/TBB
Bayernhypo Finance	500	Jan 2001	[illegible]	101.60	5.129	-	Bayerische Hypo
Krupp Finance	400	Jan 2003	6.50	101.41	6.245	-	WestLB
Landesgirokasse Stuttgart(l)	250	Jan 2000	5.00	100.20R	4.944	+6(5¾%-00)	CSFB-Effectenbank
YEN							
BNG★	10bn	May 2026	(t)	100.70	-	-	Nikko Europe
Vattenfall Treasury★	10bn	May 2006	(u)	100.20	-	-	IBJ International
NationsBank Corp	10bn	May 2002	3.05	100.00	3.050	-	UBS
Axxess★	20bn	Jun 2006	3.60	100.00R	3.600	-	Nikko Europe
Republic of Argentina(w,x)★	40bn	Mar 2007	5.50	100.00R	-	-	Nikko Europe
Sumitomo Realty & Dev(y)★	20bn	Jul 2001	2.90	100.225	-	-	Yamaichi Intl(Europe)
Sumitomo Realty & Dev(z)★	10bn	Jul 2001	[illegible]	100.20	-	-	Yamaichi Intl(Europe)
Sumitomo Realty & Dev(A)★	10bn	Jun 2002	3.15	100.50R	-	-	Daiwa Europe
Sumitomo Bank Intl Fin(C)§	100bn	May 2001	(C)	(C)	-	-	Goldman Sachs
SWISS FRANCS							
Toda Kogyo Corp(l)Φ★	100	Jun 2000	0.50	100.00	-	-	Bqe Kankaku Suisse
Kinseki(s)★Φ	60	Jan 2000	0.50	100.00	-	-	Swiss Bank Corp
Dresdner Finance	100	Jan 2001	2.25	95.10	3.330	-	Swiss Bank Corp
STERLING							
Compagnie Bancaire(k)‡	50	May 2001	(k1,s)	99.80R	-	-	HSBC Markets
BFCE‡	100	Jun 2001	(i)	99.77	-	-	PaineWebber Intl(UK)
GUILDERS							
Commerzbank O'seas Fin(e)	300	Mar 2001	5.375	99.48R	5.495	+17½(6¾-01)	ABN Amro Hoare Govt
Kingdom of Sweden(e)	300	Dec 2001	5.375	99.556R	5.478	+15(6¾%-01)	ABN Amro Hoare Govt
FRENCH FRANCS							
Merrill Lynch & Co	1bn	Jan 2006	6.875	99.416R	6.956	+52(7¼%-06)	BNP/C Lyonnais/Merrill
Dean Witter Discover & Co	1bn	Jan 2006	6.875	99.584R	6.934	+52(7¼%-06)	Morgan Stanley
LUXEMBOURG FRANCS							
Kredietbank Luxembourg	2bn	Jul 2002	(l)	102.60	5.40	-	Kredietbank Lux
ITALIAN LIRE							
Abbey Natl Trsy Services	300bn	Dec 2001	zero	64.41	8.411	-	Credito Italiano
World Bank(m)	250bn	Jun 2006	zero	41.05	-	-	Citibank/C Italiano
European Inv'ment Bank(n)	300bn	Jun 1999	8.60	101.205	-	-	BNL/Credito/San Paolo
WestLB Finance Curaçao(A)	200bn	Jan 1999	8.50	100.815	-	-	Cariplo/M dei Paschi
ECU							
Kredietbank Intl Finance	55	Jan 2002	(B)	101.00	6.175	-	Kredietbank Intl Group
CANADIAN DOLLARS							
State Bk of New Sth Wales(e)	100	Dec 2000	7.00	98.875R	7.05	+5(7½%-00)	Toronto-Dominion Bank
Bell Canada	150	Jan 2001	7.25	99.80R	7.299	+30(7½%-01)	CIBC Wood Gundy
DANISH KRONER							
Kommunekredit	400	Jul 2001	(j)	101.12	6.08	-	Den Danske Bank
Finance for Danish Industry	500	Jan 2000	5.375	99.40	5.546	-	Deutsche Morgan G'fell
PESETAS							
European Investment Bank(D)	10bn	Mar 2001	7.50	98.80	7.775	-	BCH/UBS
Swedish Export Credit(E)‡	10bn	Jan 2006	(E1)	101.405	-	-	Banco Central Hispano
DRACHMAS							
European Inv'ment Bank(e)‡	30bn	Mar 2000	(e1)	100.00R	-	-	Alpha Credit/Barclays

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ΦWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Exchangeable into ord shares of Mosel Vitelic at NT$47.22. FX: 27.31NT$/US$. Over-allotment: $20m. Callable from 4/6/99 subject to 140% hurdle at accreting value. Puttable on 4/6/01 at 137.53%. b) Conversion price: pesos 8.93. FX: 28.175 pesos/$. Callable from 30/5/99 at par with four years of 130% protection. Puttable on 30/5/01 at 128.71%. Greenshoe: 15%. c) Callable from Dec 1997 at par. Includes $50m increase at 99.85R. c1) 3-mth Libor +25bp. d) 6.5% in Aus$ or 6.5% in US$ or 6.1% in DM. e) 4.55% in Aus$. f) 5% to 19/7/99 and 7% thereafter. g) Legal maturity: 10/2/02. Class B: approx $40m, 1-mth Libor +23bp, parR. g1) 1-mth Libor +10bp. h) Callable from June 2001 at par. h1) 3-mth Libor +70bp to June 2001, then +145bp to June 2006 and then +220bp. [illegible] FX: 85.27Y/SFr. Downward revision clause: June 1998 and 1999. k) £150m launched 9/5/96 was increased to £200m. k1) 3-mth Libor +¼%. l) Long 1st coupon. m) L750bn was increased to L1000bn. Callable on 19/5/01 at 63.0176%. n) Fungible with L445bn. n1) 3-mth Libor -40bp; max 30%. o) Backed by receivables generated by sales of steel slabs from Ispat Mexicana to Mitsubishi Corp. Quarterly coupons. Average life: 5 years. q) $200m launched 9/5/96 was increased to $300m. Callable from June 2003 at par. q1) 6-mth Libor +37½bp to June 2003 and +187½bp thereafter. s) Short 1st coupon. t) 5.25% to 17/7/99 and 6.25% thereafter. u) Denoms: SFr50,000 +50 wrts. Ex price: Y1,763. FX: 85.27Y/SFr. v) Callable and puttable on 4/6/99 at 99¼% and on 4/6/01 at 99⅞%. w) Fungible with Y50bn launched 7/5/96. x) Short 1st & 2nd coupons. y) 3-mth Libor +47bp. z) Callable on 17/6/97 and 17/6/98 at par. A) Includes L50bn increase at 100.715%. Callable on 24/6/97 and 98 at par. B) 6¼% to 29/6/99 and 8% thereafter. C) Fixing by 10/6/96. Mandatory exchange with floor of Y850. Initial exchange premium: 10%. Exchange price reset downwards annually with 50% floor. 60% of outstanding notes callable at yr 4. D) Fungible with Pta60bn. Plus 94 days accrued. Note: Yields are calculated on ISMA basis.

EMERGING MARKETS By Ted Bardacke

Thai reshuffle gives traders cheer



In a market like Thailand's, often driven more by sentiment than fundamentals, this week's cabinet reshuffle by Prime Minister Banharn Silpa-archa is likely to bring some much-needed joy to the short-term punters who gather in the comfortable trading rooms around town.

Already the market has surged nearly 3.5 per cent in the past three days, on the expectation that some of the cabinet's more dubious characters will be sacked, heavily-criticised Finance Minister Surakiart Sathirathai will not be reappointed after resigning yesterday and that Mr Banharn's seven-party coalition looks to remain intact.

Important, not for the coalition's overall stability but rather for market reaction, the Palang Dharma party, led by Mr Thaksin Shinawatra, the billionaire telecommunications tycoon, looks set to remain a government ally as cabinet members "unacceptable" to Mr Thaksin and his morally righteous party are unlikely to survive the reshuffle.

As one Thai analyst put it: "If Thaksin likes the new cabinet, so will the market."

But the euphoria will be short-lived, most analysts say.

There is a growing fear in the market that cash-flow problems at property companies will depress earnings growth at finance companies and, to a lesser extent, commercial banks, which together account for 39 per cent of the market's entire capitalisation.

High interest rates, pushed by a central bank still trying to engineer a soft landing for a booming economy, are the big external problem plaguing the highly-leveraged property sector. Poorly planned residential developments sold to speculators rather than potential occupants are hurting the rate of property transfers, the point at which a developer recovers 70 per cent of the purchase price of a particular unit.

"Every time monetary policy has been tightened it's another blow to these companies," said Mr Graham Catterwell, Head of Equities at Deutsche Morgan Grenfell. "When rates finally ease we will see which of these punch-drunk boxers are still standing."

Property loans account for about 30 per cent of all finance company lending and some finance companies have admitted they are having trouble collecting some of their loans. According to Wall Street Finance & Securities, in 1995 non-performing loans as a percentage of total loans grew at 22 of the 36 finance companies the brokerage tracks.

Commercial banks have less exposure to the property sector, just under 11 per cent of the loan portfolio at the top 10 banks, according to Merrill Lynch. But individual banks' coverage (defined by the brokerage as profit plus unrealised portfolio gains plus cumulative provisions as a percentage of real estate exposure) varies widely from bank to bank: state-owned Krung Thai is well covered at 83 per cent; Bank of Ayudhya is less so at 11 per cent.

Most international investors have been avoiding the property sector for quite some time now. But any significant exposure to the Thai equity market inevitably involves some positions in the finance companies and banks. The problem for investors is knowing which finance companies and banks are potentially in trouble.

This is incredibly hard to determine. Finance companies claim that property loans are carefully scrutinised and backed by sufficient collateral. But it is very difficult to confirm these claims, as finance company disclosure is irregular and does not include collateral levels. Individual circumstances, such as whether collateral would actually be disposable at valued prices, only complicate matters further.

One confusing statistic is the level of deferred income from loans which are non-performing. A high level of deferred income could be a sign of problems. But because different companies have different definitions of what a non-performing loan is, it could also be a sign of a conservative and healthy accounting and provisioning policy.

Under normal circumstances, investors rely on the central bank to monitor the details of lending to the property sector – whether loans are dangerously concentrated in one area or to one company – via pre-screening of a particular institution's credit plan. Analysts generally give it high marks for moving to rein in the most speculative forms of real estate lending – golf courses and holiday resorts – over the past two years.

But the near collapse, in part due to dubious lending practices involving land speculation, of the Bangkok Bank of Commerce – supposedly under strict central bank scrutiny for more than a year – a couple of weeks ago has eroded much of that confidence.

"Where was the regulatory authority on that one," asked one foreign broker, who admitted his impression of the health of property and finance companies largely depended on "what I hear".

"We all assume there are no more Bangkok Bank of Commerces out there, but we really don't know. People might be ignoring the truth of how bad things are," he said.

The eventual hope for the market is a substantial interest rate cut. A 50 basis point cut in lending rates late last week offered some hope, but the move appears to be merely an attempt to shore up poor loan growth rates. A central bank spokeswoman says the bank has no plans to ease monetary policy until the inflation rate posts several straight months of decline.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	24/5/96	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (393)	161.84	-0.69	-0.42	-0.99	-0.61	14.26	+9.63
Latin America							
Argentina (22)	100.67	-1.65	-1.47	+2.87	+2.95	+10.89	+11.74
Brazil (23)	222.31	+1.13	+0.51	+13.38	+6.40	+36.22	+19.46
Chile (16)	184.99	-3.70	-1.96	-1.66	-0.89	-10.67	-5.46
Colombia (14)	171.70	+0.12	+0.07	+8.68	+5.32	+7.45	+4.54
Mexico (23)	86.06	[illegible]	-2.79	+0.87	+1.00	+14.46	+19.68
Peru(14)	1,045.82	+13.60	+1.32	-80.81	-7.96	-23.63	-2.21
Latin America (112)	138.91	+0.77	+0.56	+3.23	+2.35	+16.77	+12.81
Europe							
Greece (18)	105.79	-1.96	-1.84	-1.79	-1.67	+7.82	+7.98
Portugal (20)	127.70	+2.05	+1.61	+3.73	+3.01	+11.25	+9.66
Turkey (28)	104.20	-6.40	-5.79	-11.44	-9.89	+21.40	+25.86
South Africa (32)	143.69	-2.04	-1.40	-8.96	-5.87	-9.69	-6.32
Europe (96)	120.13	-2.12	-1.74	-6.05	-4.80	-1.41	-1.16
Asia							
China (24)	43.73	+0.66	+1.53	+1.15	+2.69	+3.41	+8.46
Indonesia (32)	151.96	-1.27	-0.83	-4.10	-2.62	+13.32	+9.61
Korea (23)	126.76	-5.24	-3.88	-15.46	-10.84	-7.13	-5.20
Malaysia (24)	262.61	+1.86	+0.72	+0.86	+0.32	+35.25	+15.50
Pakistan (14)	90.29	+0.49	+0.55	+10.35	+12.95	+16.70	+22.69
Philippines (14)	330.84	+9.75	+3.04	+27.86	+9.12	+71.67	+27.65
Thailand (25)	252.42	-1.89	-0.74	-4.77	-1.85	+0.54	+0.21
Taiwan (31)	161.44	-4.23	-2.61	-2.89	-1.84	+30.81	+23.40
Asia (187)	227.89	-1.64	-0.71	-3.00	-1.30	+24.85	+12.24

All Indices in $ terms, January 7th 1988=100. Source: ING Baring Securities.

MARKETS: This Week

NEW YORK By Maggie Urry

As the US markets return from the Memorial Day weekend, and the Dow Jones Industrial Average celebrates its first century, investors are faced with more than the usual dose of uncertainty.

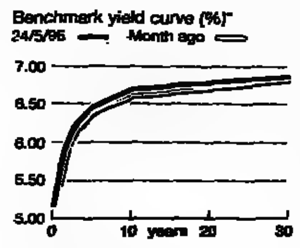
The equity market is already trading at record levels, while the bond market has been decidedly nervous of late, although it enjoyed a rally last week. The Federal Reserve's meeting last week brought no new insights to the authorities' thinking.

Trading is likely to be quiet after the long weekend, at least for the first part of the week. Thursday brings the publication of the preliminary estimate of first-quarter gross domestic product growth. The "flash" figure of 2.8 per cent is unlikely to be revised much, according to the consensus of economists polled by MMS International.

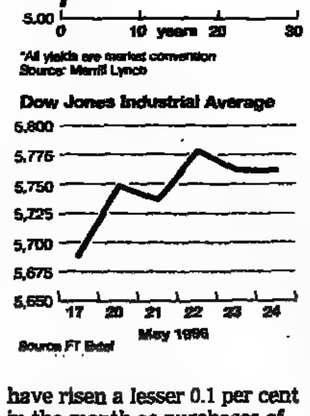
Smith Barney takes a different view, expecting a revision downwards to 2.3 per cent. However, more important will be the current quarter's growth, generally expected to be the strongest of the year.

On Friday, figures for the growth in personal incomes in April will be released, and the median forecast is for a rise of 0.4 per cent, after the 0.5 per cent increase in March. This is still a modest rate of growth, and personal consumption expenditure is expected to have risen a lesser 0.1 per cent in the month as purchases of cars have fallen but other retail sales have strengthened.

These sort of economic statistics are unlikely to have much impact on expectations for interest rates. The next significant figures will be the May employment report on June 7. It was that figure for February which caused the market to tumble in early March, and it is one which many traders may wait to see before taking any decisive new positions.



*All yields are market convention
Source: Merrill Lynch



Source FT Extel

LONDON By Philip Coggan

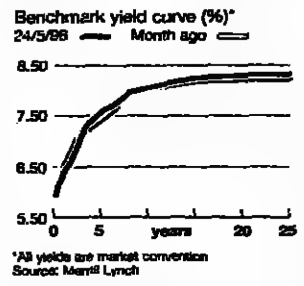
A holiday-shortened week with little in the way of economic statistics may leave the London markets struggling for impetus. Fears of forthcoming rights issues and political worries over the government's beef battle with Europe made it hard work for equities last week, although gilts, which have had a bad time of it so far this year, have shown signs of stabilising.

The main test for the gilt market will be a £3bn auction of longer dated stock (maturing 2021) on Wednesday. "It will depend upon good demand from domestic investors if it is to go well," says Mr John Shepperd, chief economist of Yamaichi in London. One concern for investors is that the public sector borrowing requirement continues to overshoot forecasts.

The index-linked sector of the gilts market has been yielding more than equities, a phenomenon normally assumed to be bad for shares. But Mr Ian Harnett of SGST Securities says volatility in the index-linked/dividend yield ratio has tended to have only a modest relationship with subsequent stock market performance.

Some equity investors are hoping that a combination of tax and mortgage rate cuts will prompt the economy to revive in the second half of the year and there were some signs of affirmation from those retailers which reported this week. This week's results – from Anglian Water, Carlton Communications, M&G, South West Water and United Utilities, among others – are likely to be rather less helpful in divining the health of the corporate sector.

With the domestic outlook quiet, the focus will probably shift to Germany where some hope the Bundesbank might shift from a fixed to a variable repo rate this week.



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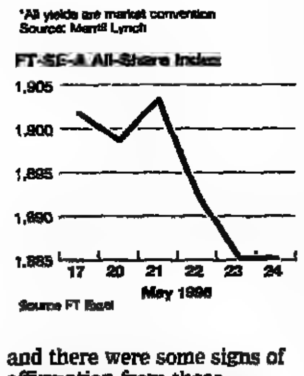
Source: Merrill Lynch



Source FT Extel

FRANKFURT By Andrew Fisher

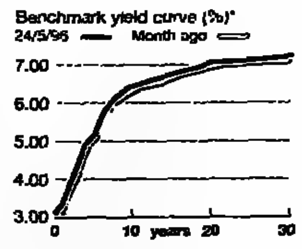
The Bundesbank duly announced its improved money supply figures last week, but the market was not exactly overwhelmed. It had hoped for more. Even so, although M3 slowed down only to an annualised rate of 11.2 per cent in April from more than 12 per cent in the previous two months, a new version of the usual guessing game began.

Instead of speculating whether the central bank would cut the discount and lombard rates – it did that last month – the question was whether the key securities repurchase (repo) rate would be lowered from 3.30 per cent.

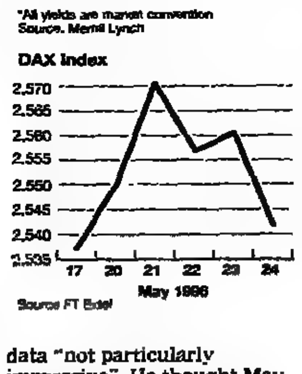
The Bundesbank could decide this at its next council meeting on Thursday. Having left the repo unchanged when it moved the other rates, it could ease the rate to about 3.25 per cent. Mr Holger Fahrinkrug, economist at UBS in Frankfurt, said this would be "an appropriate response" to the M3 slowdown. "By moving only very slowly, the Bundesbank will try to keep speculation about lower short-term interest rates alive as long as possible."

But other economists doubted that the Bundesbank would do anything until M3 slowed down more convincingly. Mr Adolf Rosenstock, chief economist at Industrial Bank of Japan in Frankfurt, thought April's M3 data "not particularly impressive". He thought May would see a better money supply performance, but the full 1996 target of 4-7 per cent growth over the 1995 fourth quarter could very well now be out of reach.

Stock market action was mixed last week, with an initial high on the Dax index followed by a more uncertain performance ahead of the Whitsun holiday. But mid-cap stocks covered by the MDax index continued to perform better than the blue chips.



*All yields are market convention
Source: Merrill Lynch



Source FT Extel

TOKYO By Emiko Terazono

Bond traders are becoming increasingly wary of signs of an improving economy. This week their focus will be on the industrial output index for April scheduled for release tomorrow.

Although the Bank of Japan has kept short-term money markets at low levels by providing an ample flow of funds, traders point out that the support has been already discounted into bond prices. With the economic trend pointing to a slow but steady recovery, most investors are unlikely to be able to accumulate large positions in long-term bonds.

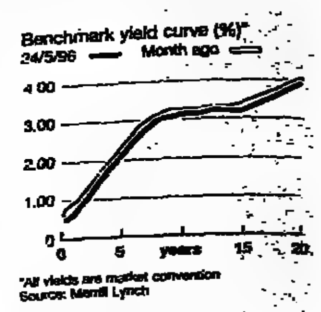
Yesterday's fall in bond prices prompted by reports that Mr Eisuke Sakakibara, head of the International Monetary Bureau of the Ministry of Finance, had predicted the dollar to rise to Y130 seems to have reflected the fragile sentiment of the market.

Hence while most market participants believe that growth in the April industrial output index, which fell 6 per cent in March, would remain weak, the fear is that stronger than expected figures could prompt a slide in bond prices.

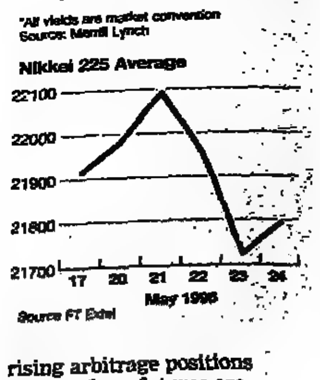
On the stock market, hopes of increased demand from postal savings and newly-launched investment trusts are likely to provide underlying support. However, rising arbitrage positions against June futures are weighing on investor confidence ahead of the June 14 settlements and capping the Nikkei index.

The long cash position against June futures contracts is approaching 3bn shares, and is a threat to the market if the futures positions failed to be rolled over into the September contract.

Trading volumes have fallen recently and stock prices will be vulnerable to selling if this trend continues.



*All yields are market convention
Source: Merrill Lynch



Source FT Extel

COMMODITIES By Richard Mooney

Perth puts on iron ore show

One of the chief developments in the world iron ore industry in recent years has been the emergence of Western Australia as one of the biggest exporters of the raw material. Between 1986 and 1994 the state's exports of iron ore grew from 83m tonnes to 126m tonnes, placing it second in the world export league, only 10m tonnes behind Brazil.

This achievement is recognised in Metal Bulletin magazine locating its first Iron Ore and its Markets conference in Perth and subtitling it Focus on Australia.

"This conference [which began on Sunday and concludes today] will examine the demand for iron ore in the markets of Asia," says Metal Bulletin. "What is the history of growth and how has Australia managed, apparently, to benefit more than its rivals?"

Speakers will also try to answer the questions: "Will the Asia-Pacific region markets continue to grow at similar rates and will Australia continue to be the principal beneficiary?"

Other topics are: What are the growth expectations of the iron ore miners of Western Australia?; will the next downstream project be in the Pilbara or the south-west of the state?; and, how much iron ore will key markets like Japan, China and Korea import in five years' time?

Speakers include the current Western Australian minister for resources development and a former state president, as well as industry leaders from Australia, the US and Japan.

The conference is followed, tomorrow and Thursday, by a field trip to the Pilbara region, which the organiser describes as "the heartland of of WA iron ore".

● *Other events this week* include a two-day International Coffee Organisation seminar, ending today, in London on "Coffee and the Environment".

Starting today in Bangkok are three days of International Sugar Organisation full council and statistical committee meetings.

From Thursday Victoria Falls is the venue for a three-day conference of Zimbabwe's private Chamber of Mines, concentrating mainly on investment prospects.

OTHER MARKETS Compiled by William Cochrane

PARIS

The start of the June account last Friday saw the beginning of the annual round of shareholders' meetings, *writes John Pitt*. One of the expected themes has been an improvement in trading conditions during the second half of the current year.

The meetings start today with Accor and Elf Aquitaine, followed on Thursday by LVMH and Christian Dior, and concluding on Friday with Roussel Uclaf and Michelin. In addition there are numerous shareholder meetings for smaller capitalised companies, such as Bic today and Bon Marché on Friday.

Accor will be worth watching following last week's technical downgrade by JP Morgan from "strong buy" to "buy". The broker said it was cutting its 1996 eps forecast from FFr43.90 to FFr39.60, and for 1997 from FFr52.30 to FFr46.10.

This action, says JP Morgan, "reflects disappointing 1995 results, stemming from exceptional items and a lower than expected contribution from service vouchers and Formule 1 [its budget hotels group]."

The broker feels that the overall business looks strong this year, although the share price has been affected recently by the bid for IBL, the holding company of Motel 6 in the US, which would result in equity dilution.

ZURICH

The AGM season is open in Switzerland too. Notable names include Nestlé on Thursday and CS Holding on Friday. However, special attention will focus on the balance sheet press conference at Merkur, the retailing and consumer goods conglomerate which, at the beginning of this month, reported net profits down 56 per cent in 1995 after a 1.6 per cent drop in sales, and a 24 per cent fall in cash flow.

The Merkur share price had anticipated the bad news in 1995, says Mr Frederick Hasslauer at Bank Sal Oppenheim in Zurich, falling from an early peak of SFr342 to SFr228 last December 3. The company blamed poor retail sales in its main markets of Switzerland, Germany and France; extraordinary costs for opening a new trading centre; and provisions of SFr15.6m for put options.

This was its first setback since 1978, says Mr Hasslauer; tomorrow, at Muttenz, near Berne, it will face questions about its recovery prospects, given the more difficult than expected consumer economy prospects for Europe in the current year.

NEW ZEALAND

Overseas brokers' reactions to New Zealand's political uncertainty, in the run-up to its first elections using proportional representation, will continue to dominate the bond market in spite of the sound fundamentals unveiled in last week's budget, *writes Richard Adams*.

Last week the domestic market anticipated a post-budget rally, but heavy selling caught many dealers by surprise. Long end yields grew by more than 25 basis points. The 10-year bond closed the week at 203 basis points over US Treasuries, its highest spread for four years.

The market will be hoping for a return of confidence, in spite of the bearish outlook, to combat a scarcity of liquidity. One broker noted that even such a big back-up in yields, with inflation forecast at 2.1 per cent, had caused little interest from domestic institutions about buying.

But with the election not until October 12, and little to distract the market before then, the outlook for yields could be for more of the same. Short end yield curves will be complicated by the planned use of privatisation receipts over the coming fiscal year to reduce the government's bond issue by half, repurchase July 1997 bonds, and retire 12-month Treasury bills.

Looming rises in interest rates from a hawkish central bank may move money markets upwards, in spite of the pessimistic current account forecasts released last week.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Sonat Offshore Drilling (US)	Transocean Drilling (Norway)	Oil & gas exploration	$1.5bn	Preferred bid increased
Robert Bosch (Germany)	Unit of Allied Signal (US)	Auto components	$1.5bn	EU approves
Investor Group (Int'l)	Light (Brazil)	Power	$1.29bn	Largest stake buyer
Svedala (Sweden)	Tampella (Finland)	Construction equipment	$298m	Formal revised offer
Swissair (Switzerland)	Allders International (UK)	Retailing	$218m	Higher than BAA bid
RJB Mining (UK)	CIM Resources (Australia)	Mining	$107m	RJB overseas debut
Centeon (Germany/France)	Delta Biotechnology (UK)	Biotechnology	$45m	BOC disposal
Western Star (Canada)	ERF (UK)	Heavy vehicles	$41m	Recommended cash bid
Getinge Industrier (Sweden)	MDT Corp (US)	Medical products	$30.5m	Sterilisation move
Rolls-Royce (UK)/Avic (China)	Joint Venture	Aircrafts parts	n/a	Jet engines move

ATHENS STOCK EXCHANGE May 17th - May 24th 1996 GREECE

				GDP (USD bn) 96e	115.60
ASE INDEX	910.65	P/E (after tax) 96e/95e	10.5 / 12.3	Per Capita Income (USD)	10,804
%Chg (2/1/96)	0.77	EPS GROWTH (%) 96e	14.3	Inflation Rate (% Y.O.Y. April 96)	9.20
Yearly High	1026.02	P/E 96e/EPS GROWTH (%) 96e	0.73	12 Month T-bill (%, at the beginning of May issue)	13.30
Yearly Low	898.15	P/CE 96e/95e	8.1 / 9.2	1-Month Athibor (%)	13.94
WEEKLY VOLUME (USD m)	85.36	P/BV 96e/95e	2.2 / 2.8	GRD/US$	244.20
%Chg (Prev. Wk)	-3.96	Div. Yield (%) 96e/95e	6.3 / 4.7	A.S.E. Market Capitalisation - 17/5/96 (USD bn)	23.30
1 Y Wk Avg. (USD m)	139.14			IPOs & Rights issues (in USD m) 1 Jan '96-24 May '96	473.25

CURRENCIES By Philip Gawith

Currencies set for quiet week ahead of Tankan report

Currencies look set for a quiet period given the absence of any important statistical releases and the holiday foreshortened week.

Attention is instead likely to focus on the release next week of the Tankan report in Japan, and the employment report in the US.

Ahead of those events, the recent consolidation trend evident in the markets looks set to continue. The dollar continues to grind slowly higher, but without much sign of accelerating. And within Europe, the surge in high-yielding currencies looks to have played itself out for the time being.

The upshot is that the market is left wondering what could upset the status quo. The favourite reasons cited are a change to the economic outlook in Germany, or a similar shift in Japan.

The prospect of a rise in German interest rates seems remote, but the longer the Bundesbank persists in leaving the repo rate unchanged, the more market participants will start speculating that the next move will be up.

The public sector strikes in Germany are another factor the market is watching. Any sign that the government is buckling to their demands will have serious repercussions on the Emu process, because it will lessen the chance of Germany meeting the Maastricht convergence criteria.

As for Japan, the market is waiting for the release of the Tankan report on business conditions. It will be seeking information on the strength of the economy, with a view to assessing how long it will be before Japanese rates start rising, lending support to the yen.

In the US, in the absence of key indicators, a week of rumour-mongering lies ahead.

Mr Dave Munro, chief US economist at High Frequency Economics in New York, says: "Analysts will be consumed in speculation on whether the Fed's next move will be to tighten, or to ease." He said the key issue would be whether the pace of expansion was settling down to a sustainable 2 per cent or so, or accelerating towards 4 per cent, as it did in 1994.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, May 24, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7186.28	4750.00	3081.61	4411.42
Albania	(Lek)	150.231	99.3000	64.4220	92.2220
Algeria	(Dinar)	84.5863	55.9100	36.2722	51.9246
Andorra	(French Fr)	7.8913	5.2162	3.3841	4.8444
	(Sp Peseta)	194.273	128.415	83.3106	119.262
Angola	(Read) Kwanza(1)	48085.0	31784.0	20620.2	29518.5
Antigua	(E Carib $)	4.0848	2.7000	1.7517	2.5076
Argentina	(Peso)	1.5118	0.9993	0.6483	0.9281
Armenia	(Dram)	613.2580	405.750	263.236	376.826
Aruba	(Florin)	2.7081	1.7900	1.1613	[illegible]
Australia	(Aus $)	[illegible]	1.2636	0.8198	1.1735
Austria	(Schilling)	16.4081	10.8458	7.0363	10.0727
Azerbaijan	(Manat)	6620.456	4376.00	2838.96	4064.08
Azores	(Port Escudo)	239.643	158.405	102.767	147.114
Bahamas	(Bahama $)	1.5129	1	0.6488	0.9287
Bahrain	(Dinar)	0.5704	0.3770	0.2446	0.3501
Balearic Is	(Sp Peseta)	194.273	128.415	83.3106	119.262
Bangladesh	(Taka)	62.4051	41.2500	26.7614	38.3097
Barbados	(Barb $)	3.0429	2.0113	1.3049	1.8679
Belarus	(Rouble)	23298.76	15400.0	9990.92	14302.3
Belgium	(Belg Fr)	47.9324	31.6835	20.5550	29.4251
Belize	(B $)	3.0258	2.0000	1.2975	[illegible]
Benin	(CFA Fr)	789.130	521.620	338.407	484.439
Bermuda	(Bermudian $)	1.5129	1	0.6488	0.9287
Bhutan	(Ngultrum)	53.1012	35.1000	22.7715	32.5981
Bolivia	(Boliviano)	[illegible]	5.0700	3.2892	4.7086
Botswana	(Pula)	5.1043	3.3738	2.1888	[illegible]
Brazil	(Real)	1.5077	0.9966	0.6466	0.9256
Brunei	(Brunei $)	2.1236	1.4103	0.9149	1.3098
Bulgaria	(Lev)	208.024	137.500	89.2046	127.699
Burkina Faso	(CFA Fr)	789.130	521.620	338.407	484.439
Burma	(Kyat)	9.0151	5.9588	3.8658	5.5341
Burundi	(Burundi Fr)	432.614	285.950	185.513	265.568
Cambodia	(Riel)	3479.67	2300.00	1492.15	2136.06
Cameroon	(CFA Fr)	789.130	521.620	[illegible]	484.439
Canada	(Canadian $)	2.0795	1.3746	0.8918	1.2766
Canary Is	(Sp Peseta)	194.273	128.415	83.3106	119.262
Cp. Verde	(CV Escudo)	125.525	82.9700	53.8277	77.0560
Cayman Is	(CI $)	1.2876	0.8511	0.5522	0.7904
Cent. Afr. Rep	(CFA Fr)	[illegible]	521.620	338.407	484.439
Chad	(CFA Fr)	789.130	521.620	338.407	[illegible]
Chile	(Chilean Peso)	616.582	407.550	264.403	378.500
China	(Yuan)	12.5971	8.3267	5.4020	7.7332
Colombia	(Col Peso)	1617.54	1069.20	693.655	992.988
Comoros	(Fr)	440.632	291.250	188.952	270.490
Congo	(CFA Fr)	789.130	521.620	338.407	484.439
Costa Rica	(Colon)	309.267	204.420	132.620	189.849
Côte d'Ivoire	(CFA Fr)	789.130	521.620	338.407	484.439
Croatia	(Kuna)	8.4333	[illegible]	3.6164	5.1769
Cuba	(Cuban Peso)	1.5129	1	0.6488	0.9287
Cyprus	(Cyprus £)	0.7195	0.4756	0.3085	0.4417
Czech Rep.	(Koruna)	[illegible]	27.8770	17.8558	25.7042
Denmark	(Danish Krone)	9.0038	[illegible]	3.8611	5.5273
Djibouti Rep	(Djib Fr)	242.064	160.000	103.802	148.595
Dominica	(E Carib $)	[illegible]	2.7000	1.7517	2.5076
Dominican Rep	(D Peso)	21.3319	14.1000	9.1475	[illegible]
Ecuador	(Sucre)	4735.380	3130.00	2030.62	2906.90
	(Sucre)	4727.818	3125.00	2027.38	2902.25
Egypt	(Egyptian £)	5.1744	3.4202	2.2189	3.1764
El Salvador	(Colon)	13.2455	8.7550	5.6799	8.1310
Equat'l Guinea	(CFA Fr)	789.130	521.620	[illegible]	484.439
Estonia	(Kroon)	18.6616	12.3350	8.0024	11.4557
Ethiopia	(Ethiopian Birr)	8.7748	5.8000	3.7628	5.3866
Falkland Is	(Falk £)	1	0.6610	0.4288	0.6139
Faroe Is	(Danish Krone)	9.0038	5.9515	3.8611	5.5273
Fiji Is	(Fiji $)	2.1189	1.4006	0.9086	[illegible]
Finland	(Markka)	7.1981	4.7598	3.0872	[illegible]
France	(Fr)	7.8913	5.2162	3.3841	4.8444
Fr. Cty/Africa	(CFA Fr)	789.130	521.620	[illegible]	[illegible]
Fr. Guiana	(Local Fr)	[illegible]	5.2162	3.3841	4.8444
Fr. Pacific Is	(CFP Fr)	143.492	94.8454	61.5320	88.0848
Gabon	(CFA Fr)	789.130	521.620	[illegible]	484.439
Gambia	(Dalasi)	14.8264	9.8000	6.3579	[illegible]
Germany	(D-Mark)	2.3319	1.5414	1	1.4315
Ghana	(Cedi)	2446.38	1617.00	1049.05	1501.74
Gibraltar	(Gib £)	1	0.6610	0.4288	0.6139
Greece	(Drachma)	368.898	243.835	158.191	226.455
Greenland	(Danish Krone)	9.0038	5.9515	3.8611	5.5273
Grenada	(E Carib $)	4.0848	2.7000	1.7517	2.5076
Guadeloupe	(Local Fr)	7.8913	5.2162	3.3841	4.8444
Guam	(US $)	1.5129	1	0.6488	0.9287
Guatemala	(Quetzal)	9.1739	6.0636	3.9340	5.6316
Guinea	(Fr)	1508.38	997.000	646.815	925.935
Liechtenstein	(Swiss Fr)	1.9136	1.2649	0.8206	1.1747
Lithuania	(Litas)	6.0518	4.0000	2.5950	3.7148
Luxembourg	(Lux Fr)	47.9324	31.6835	20.5550	29.4251
Macao	(Pataca)	12.0908	[illegible]	[illegible]	7.4222
Macedonia	(Denar)	57.6415	38.1000	24.7178	35.3843
Madagascar	(MG Fr)	5749.02	3800.00	2465.29	3529.14
Madeira	(Port Escudo)	239.643	158.405	102.767	147.114
Malawi	(Kwacha)	23.1504	15.3020	9.9273	14.2113
Malaysia	(Ringgit)	[illegible]	2.4902	1.6155	2.3127
Maldive Is	(Rufiya)	17.8069	11.7700	7.6358	10.9311
Mali Rep	(CFA Fr)	789.130	521.620	338.407	484.439
Malta	(Maltese Lira)	0.5559	0.3674	0.2384	0.3412
Martinique	(Local Fr)	7.8913	5.2162	3.3841	4.8444
Mauritania	(Ouguiya)	208.380	138.400	88.4910	128.878
Mauritius	(Maur Rupee)	29.6595	19.6050	12.7190	18.2076
Mexico	(Mexican Peso)	11.2019	7.4045	4.8037	6.8767
Miquelon	(Local Fr)	7.8913	5.2162	[illegible]	4.8444
Moldova	(Leu)	6.9216	[illegible]	2.9681	4.2489
Monaco	(French Fr)	[illegible]	5.2162	3.3841	4.8444
Mongolia	(Tugrik)	706.025	466.670	302.757	433.406
Montserrat	(E Carib $)	4.0848	2.7000	1.7517	2.5076
Morocco	(Dirham)	13.3256	8.8080	5.7143	8.1802
Mozambique	(Metical)	16854.5	11140.5	7227.52	10346.4
Namibia	(S A Rand)	6.6998	4.3825	2.8302	4.0515
Nauru Is	(Australian $)	1.9118	1.2636	0.8198	1.1735
Nepal	(Nepalese Rupee)	84.7803	56.0050	36.3468	52.0316
Netherlands	(Guilder)	2.6084	1.7242	1.1186	1.6013
N'nd Antilles	(A/Guilder)	2.7081	1.7900	[illegible]	1.6624
New Zealand	(NZ $)	2.2113	1.4616	0.9482	1.3574
Nicaragua	(Gold Cordoba)	12.5467	8.2931	5.3802	7.7020
Niger Rep	(CFA Fr)	789.130	521.620	338.407	484.439
Nigeria	(Naira)	33.2808	22.0000	14.2727	20.4319
	(Naira)	128.368	84.8500	55.0474	78.8020
Norway	(Nor. Krone)	9.9789	6.5961	[illegible]	6.1259
Oman	(Rial Omani)	0.5825	0.3850	0.2498	0.3576
Pakistan	(Pak. Rupee)	52.5191	34.7153	22.5216	32.2408
Panama	(Balboa)	1.5129	1	0.6488	0.9287
Papua New Guinea	(Kina)	1.9471	1.2870	0.8350	1.1953
Paraguay	(Guarani)	3071.19	2030.00	[illegible]	1885.30
Peru	(New Sol)	3.6505	2.4130	1.5655	2.2410
Philippines	(Peso)	39.5813	26.1700	16.9781	24.3046
Surinam	(Guilder)	620.289	410.000	265.992	380.776
Swaziland	(Lilangeni)	6.5998	4.3625	2.8302	4.0516
Sweden	(Krona)	10.3314	6.8291	4.4305	6.3423
Switzerland	(Fr)	1.9136	1.2649	0.8206	1.1747
Syria	(£)	63.4662	41.9500	27.2156	38.9598
Taiwan	($)	41.4922	27.4265	17.7932	25.4716
Tanzania	(Shilling)	847.224	560.000	363.306	520.064
Thailand	(Baht)	38.3205	25.3300	16.4331	23.5246
Togo Rep	(CFA Fr)	789.130	521.620	338.407	484.439
Tonga Is	(Pa'anga)	1.9118	1.2636	0.8198	1.1735
Trinidad/Tobago	($)	8.6765	5.7350	3.7207	5.3262
Tunisia	(Dinar)	1.4960	0.9888	0.6415	0.9183
Turkey	(Lira)	118843.5	78560.0	50966.7	72960.3
Turks & Caicos	(US $)	1.5129	1	0.6488	0.9287
Tuvalu	(Australian $)	1.9118	1.2636	0.8198	1.1735
Uganda	(New Shilling)	1537.11	1016.00	659.141	943.580
Ukraine	(Karbovanets)	280189.2	185200.0	120150.5	171999.1
U A E	(Dirham)	5.5570	3.6732	2.3830	3.4114
United Kingdom	(£)	1	0.6610	0.4288	0.6139
United States	(US $)	1.5129	1	0.6488	0.9287
Uruguay	(Peso Uruguayo)	11.6947	7.7300	[illegible]	7.1790
Vanuatu	(Vatu)	167.669	110.830	71.9022	102.930
Vatican	(Lira)	2359.87	1559.75	1011.90	1448.57
Venezuela	(Bolivar)	708.957	468.630	304.029	435.226
Vietnam	(Dong)	16659.3	11011.5	7143.83	10226.6
Virgin Is-British	(US $)	1.5129	1	0.6488	0.9287
Virgin Is-US	(US $)	1.5129	1	0.6488	0.9287
Western Samoa	(Tala)	[illegible]	2.4372	1.5812	2.2635
Yemen (Rep of)	(Rial)	211.806	140.000	90.8265	130.021
Yugoslavia	(New Dinar)	7.3376	[illegible]	[illegible]	4.6043
Zaire Rep	(Zaire)	39609.8	26221.0	17011.2	24352.0
Zambia	(Kwacha)	1868.43	1235.00	801.220	1146.97
Zimbabwe	($)	14.8976	9.8275	6.3757	9.1270

Special Drawing Rights May 23, 1996 Utd Kingdom £0.953400 Utd States $1.43973 Germany DM2.22251 Japan Y153.835 European Currency Unit Rates May 24, 1996 Utd Kingdom £0.819602 Utd States $1.23965 Germany DM1.91340 Japan Y133.547

Abbreviations: (a) Free rate; (m) Market rate; (o) Official rate; (p) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Angolan Readjusted Kwanza devalued on 4/3/96. [illegible]

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

May 24		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.4081	+0.0127	983 - 178	16.4383	16.3931	16.3789	2.3	16.3019	[illegible]	-	-	104.7
Belgium	(BFr)	47.9324	[illegible]	[illegible]	48.0350	47.7100	47.7991	2.8	47.5891	2.8	46.5691	2.8	108.5
Denmark	(DKr)	9.0036	+0.0083	988 - 087	9.0188	8.9984	8.9801	2.1	8.9473	2.1	8.804	[illegible]	107.1
Finland	(FM)	7.1991	+0.0226	927 - 054	7.2260	7.1760	7.1721	0.7	7.164	0.7	-	-	84.3
France	(FFr)	7.8913	+0.0019	882 - 944	7.9122	7.8873	7.8753	2.1	7.8474	[illegible]	7.7145	2.2	108.9
Germany	(DM)	2.3319	+0.0018	306 - 332	2.3375	2.3305	2.3251	2.5	2.3147	2.6	2.2643	2.8	109.0
Greece	(Dr)	368.886	-0.128	602 - 170	370.039	367.159	-	-	-	-	-	-	67.3
Ireland	(I£)	0.9694	+0.0004	686 - 701	0.9703	0.9683	0.9682	1.0	0.9669	0.9	0.9601	0.9	98.8
Italy	(L)	2359.67	+1.75	844 - 090	2365.88	2358.14	2368.17	-4.2	2381.27	-4.0	2433.97	-3.2	76.3
Luxembourg	(LFr)	47.9324	[illegible]	[illegible]	48.0350	47.7100	47.7991	2.8	47.5891	2.6	46.6891	2.6	108.5
Netherlands	(Fl)	2.6094	+0.0023	072 - 095	2.6127	2.6073	2.5998	2.9	2.5871	2.9	2.5279	3.0	106.7
Norway	(NKr)	9.9789	+0.0043	702 - 875	9.9891	9.9785	9.9656	1.1	9.9465	1.1	9.8508	1.2	98.5
Portugal	(Es)	239.643	[illegible]	[illegible]	[illegible]	[illegible]	239.635	-2.1	240.54	-2.2	-	-	94.7
Spain	(Pta)	194.273	+0.138	147 - 399	194.624	194.228	194.445	-1.9	194.94	-1.7	196.595	-1.3	81.2
Sweden	(SKr)	10.3314	-0.026	211 - 416	10.3771	10.3266	10.3586	-0.1	10.3603	-0.1	10.3625	0.0	89.6
Switzerland	(SFr)	1.9136	+0.0024	123 - 148	1.9158	1.9115	1.905	3.9	1.8822	4.0	1.8345	4.0	110.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.6
Ecu	-	1.2332	-0.0004	325 - 339	1.2358	1.2330	1.2323	1.3	1.2298	1.4	1.216	1.4	-
SDR†	-	1.048890	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5118	+0.0003	104 - 131	1.5153	1.5113	-	-	-	-	-	-	-
Brazil	(R$)	1.5077	+0.0009	070 - 083	1.5087	1.5059	-	-	-	-	-	-	-
Canada	(C$)	2.0795	-0.0018	785 - 805	2.0861	2.0777	2.0806	0.4	2.077	0.6	2.0689	0.6	83.9
Mexico	(New Peso)	11.2019	+0.0359	948 - 090	11.2053	11.1690	-	-	-	-	-	-	-
USA	($)	1.5129	+0.0003	124 - 133	1.5155	1.5115	1.5118	0.8	1.5103	0.6	1.5056	0.5	97.2
Pacific/Middle East/Africa													
Australia	(A$)	1.9118	+0.0071	108 - 129	1.9177	1.9050	1.9073	-1.8	1.9123	-1.6	1.9378	-1.7	93.5
Hong Kong	(HK$)	11.7030	+0.0022	987 - 072	11.7231	11.6940	11.6927	0.8	11.6811	0.7	11.6615	0.3	-
India	(Rs)	53.1012	+0.2357	071 - 952	53.2080	52.9810	-	-	-	-	-	-	-
Israel	(Shk)	4.9489	+0.0044	436 - 542	4.9572	4.9456	-	-	-	-	-	-	-
Japan	(Y)	162.898	+1.388	795 - 998	163.150	161.670	160.783	5.4	159.293	5.5	152.878	5.3	137.8
Malaysia	(M$)	3.7073	-0.0029	654 - 692	3.7748	3.7651	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2113	+0.0004	095 - 131	2.2220	2.2111	2.2159	-2.7	2.2254	-2.5	2.2592	-2.2	107.5
Philippines	(Peso)	39.5913	+0.0716	190 - 636	39.9164	39.5000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6739	+0.001	720 - 758	5.6836	5.6690	-	-	-	-	-	-	-
Singapore	(S$)	2.1338	+0.0016	322 - 350	2.1358	2.1324	-	-	-	-	-	-	-
South Africa	(R)	6.5998	-0.0027	903 - 093	6.6138	6.5837	-	-	-	-	-	-	-
South Korea	(Won)	1182.37	+0.2	194 - 280	1184.36	1181.39	-	-	-	-	-	-	-
Taiwan	(T$)	41.4922	+0.059	670 - 174	41.5520	41.4434	-	-	-	-	-	-	-
Thailand	(Bt)	38.3205	+0.026	940 - 470	38.3720	38.2970	-	-	-	-	-	-	-

† Rates for May 23. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.8458	+0.0065	426 - 490	10.8690	10.8358	10.8263	2.2	10.7843	2.3	10.6008	2.3	104.5
Belgium	(BFr)	31.6835	+0.0135	760 - 910	31.7300	31.5540	31.6285	2.1	31.5135	2.1	30.9735	2.2	106.3
Denmark	(DKr)	5.9515	+0.0045	500 - 530	5.9650	5.9449	5.946	1.5	5.937	1.6	5.858	1.6	106.5
Finland	(FM)	4.7586	+0.0141	558 - 614	4.7748	4.7400	4.7521	1.6	4.7401	1.6	4.6946	1.3	82.2
France	(FFr)	5.2162	+0.0004	157 - 167	5.2295	5.2138	5.2092	1.6	5.195	1.6	5.1272	1.7	108.2
Germany	(DM)	1.5414	+0.0009	410 - 418	1.5449	1.5403	1.5389	1.9	1.5332	2.1	1.5049	2.4	107.4
Greece	(Dr)	243.835	-0.125	720 - 950	244.670	242.670	245.51	-8.2	248.86	-8.2	262.835	-7.8	66.9
Ireland	(I£)	1.5608	-0.0002	600 - 615	1.5640	1.5590	1.5614	-0.4	1.5622	-0.4	1.5537	0.5	-
Italy	(L)	1559.75	+0.9	940 - 010	1565.25	1558.05	1565.8	-4.7	1577.35	-4.5	1618.25	-3.8	75.9
Luxembourg	(LFr)	31.6835	+0.0135	760 - 910	31.7300	31.5540	31.6305	2.0	31.524	2.0	31.0435	2.0	106.3
Netherlands	(Fl)	1.7242	+0.0013	239 - 244	1.7272	1.7225	1.7208	2.3	1.7137	2.4	1.682	2.5	106.2
Norway	(NKr)	6.5961	+0.0018	925 - 998	6.6085	6.5924	6.5931	0.5	6.5876	0.5	6.5511	0.7	97.7
Portugal	(Es)	158.405	+0.25	380 - 430	158.460	158.200	158.72	-2.4	159.31	-2.3	161.455	-1.9	94.8
Spain	(Pta)	128.415	+0.07	370 - 460	128.630	128.430	128.665	-2.3	129.095	-2.1	130.635	-1.7	80.9
Sweden	(SKr)	6.8291	-0.0183	243 - 336	6.8577	6.8275	6.8402	-1.9	6.8576	-1.7	6.8996	-1.0	88.0
Switzerland	(SFr)	1.2649	+0.0014	644 - 655	1.2675	1.2630	1.2613	3.4	1.2539	3.5	1.2204	3.5	110.3
UK	(£)	1.5129	+0.0003	124 - 133	1.5155	1.5115	1.5121	0.6	1.5106	0.6	1.5059	0.5	84.3
Ecu	-	1.2268	+0.0008	264 - 271	1.2275	1.2243	1.2275	-0.7	1.2292	-0.8	1.238	-0.9	-
SDR†	-	0.69457	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9993	-	987 - 999	0.9995	0.9989	-	-	-	-	-	-	-
Brazil	(R$)	0.9966	+0.0005	964 - 967	0.9967	0.9957	-	-	-	-	-	-	-
Canada	(C$)	1.3748	-0.0014	743 - 748	1.3772	1.3740	1.3744	0.1	1.3747	0.0	1.3775	-0.2	83.1
Mexico	(New Peso)	7.4045	+0.0225	020 - 070	7.4100	7.4050	7.566	-26.2	7.751	-18.7	9.5145	-28.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.1
Pacific/Middle East/Africa													
Australia	(A$)	1.2636	+0.0045	633 - 641	1.2603	1.2654	1.2656	-1.9	1.2691	-1.7	1.2878	-1.9	95.2
Hong Kong	(HK$)	7.7357	+0.0002	352 - 362	7.7359	7.7357	7.7364	-0.1	7.7382	-0.1	7.7652	-0.4	-
India	(Rs)	35.1000	+0.15	500 - 500	35.1500	34.9900	35.25	-5.1	35.555	-5.2	37.025	-5.5	-
Israel	(Shk)	3.2713	+0.0024	687 - 738	3.2740	3.2684	-	-	-	-	-	-	-
Japan	(Y)	107.675	+0.9	640 - 710	107.790	106.870	107.23	5.0	106.33	5.0	102.59	4.7	139.3
Malaysia	(M$)	2.4902	-0.0023	897 - 907	2.4936	2.4895	2.4911	-0.4	2.4972	-1.1	2.5207	-1.2	-
New Zealand	(NZ$)	1.4616	-	609 - 624	1.4629	1.4662	1.4647	-2.5	1.4705	-2.4	1.4951	-2.3	-
Philippines	(Peso)	26.1700	+0.01	300 - 100	26.2100	26.1300	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	+0.0001	503 - 506	3.7503	3.7508	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4103	+0.0004	096 - 108	1.4105	1.4097	1.4068	3.0	1.4008	2.7	1.3753	2.5	-
South Africa	(R)	4.3625	-0.0025	575 - 675	4.3700	4.3500	4.41	-13.1	4.5	-12.6	4.8375	-10.9	-
South Korea	(Won)	781.550	-	500 - 600	-	-	-	-	-	-	-	-	-
Taiwan	(T$)	27.4265	+0.0345	180 - 350	27.4420	27.4100	27.4315	-0.2	27.4365	-0.1	-	-	-
Thailand	(Bt)	25.3300	+0.013	200 - 400	25.3200	25.3140	25.4287	-4.7	25.6325	-4.8	26.515	-4.7	-

† SDR rate per $ for May 23 Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 23. Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

May 24	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	2.50	-
week ago	[illegible]	[illegible]	3½	[illegible]	[illegible]	7.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.70	-	5.60
week ago	[illegible]	[illegible]	[illegible]	4	4⅛	3.70	-	5.60
Germany	3¼	[illegible]	[illegible]	3¼	[illegible]	4.50	2.50	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.25
week ago	9¼	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.25
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	2¼	[illegible]	2¼	[illegible]	5.00	1.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	5¼	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	½	½	[illegible]	[illegible]	-	0.50	-
week ago	½	½	[illegible]	[illegible]	[illegible]	-	0.50	-
$ LIBOR FT London								
Interbank Fixing	-	[illegible]	5½	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	5½	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.01	5.05	5.20	5.55	-	-	-
week ago	-	5.01	5.11	5.25	5.59	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 24	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 4
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	6 - [illegible]	[illegible]	6 - [illegible]	[illegible] - 6	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible] - 9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 24		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.79	16.46	4.865	2.022	4922	5.441	20.82	499.9	405.4	21.55	3.993	2.086	4.338	3.157	339.9	2.573
Denmark	(DKr)	53.23	10	8.764	2.590	1.076	2620	2.896	11.09	266.1	215.8	11.47	2.125	1.111	2.309	1.680	180.9	1.369
France	(FFr)	60.74	11.41	10	2.955	1.228	2989	3.305	12.65	303.6	246.2	13.09	2.425	1.267	2.635	1.917	206.4	1.563
Germany	(DM)	20.55	3.861	3.384	1	0.416	1012	1.118	4.279	102.7	83.32	4.430	0.821	0.429	0.892	0.649	69.85	0.529
Ireland	(I£)	49.46	9.292	8.143	2.407	1	2434	2.691	10.30	247.3	200.5	10.66	1.976	1.032	2.146	1.561	168.1	1.272
Italy	(L)	2.032	0.382	0.335	0.099	0.041	100.	0.111	0.423	10.16	8.237	0.438	0.081	0.042	0.088	0.064	6.905	0.052
Netherlands	(Fl)	18.38	3.452	3.026	0.894	0.372	904.5	1	3.826	91.87	74.50	3.961	0.734	0.383	0.797	0.580	62.46	0.473
Norway	(NKr)	48.03	9.023	7.909	2.337	0.971	2364	2.613	10	240.1	194.7	10.35	1.918	1.002	2.083	1.516	163.2	1.236
Portugal	(Es)	20.00	3.758	3.293	0.973	0.404	984.6	1.088	4.165	100.	81.09	4.311	0.799	0.417	0.868	0.631	67.99	0.515
Spain	(Pta)	24.67	4.634	4.061	1.200	0.499	1214	1.342	5.136	123.3	100.	5.317	0.985	0.515	1.070	0.779	83.84	0.635
Sweden	(SKr)	46.40	8.716	7.639	2.258	0.938	2284	2.525	9.660	231.9	188.1	10	1.853	0.968	2.013	1.465	157.7	1.194
Switzerland	(SFr)	25.04	4.704	4.123	1.218	0.506	1232	1.363	5.214	125.2	101.5	5.397	1	0.522	1.086	0.790	85.11	0.644
UK	(£)	47.93	9.004	7.891	2.332	0.969	2359	2.608	9.979	239.6	194.3	10.33	1.914	1	2.079	1.513	162.9	1.233
Canada	(C$)	23.05	4.331	3.796	1.122	0.466	1135	1.254	4.800	115.2	93.46	4.969	0.921	0.481	1	0.728	78.35	0.593
US	($)	31.68	5.951	5.216	1.541	0.640	1559	1.724	6.596	158.4	128.4	6.827	1.265	0.661	1.374	1	107.7	0.815
Japan	(Y)	29.42	5.527	4.844	1.432	0.595	1448	1.601	6.126	147.1	119.3	6.341	1.175	0.614	1.276	0.929	100.	0.757
Ecu		38.87	7.303	6.400	1.891	0.786	1913	2.115	8.093	194.3	157.6	8.378	1.552	0.811	1.686	1.227	132.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.6489	0.6482	-0.0010	0.6500	0.6481	14,475	80,640
Sep	0.6528	0.6517	-0.0010	0.6528	0.6515	811	4,838
Dec	0.6570	0.6557	-0.0010	0.6570	0.6570	27	1,826

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.7910	0.7906	-0.0011	0.7931	0.7900	13,884	44,084
Sep	0.7978	0.7966	-0.0012	0.7985	0.7965	188	3,472
Dec	0.8030	0.8034	-0.0012	0.8030	0.8030	11	799

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.9361	0.9284	-0.0087	0.9385	0.9281	9,876	69,092
Sep	0.9486	0.9408	-0.0088	0.9485	0.9406	283	3,616
Dec	0.9635	0.9524	-0.0089	0.9555	0.9528	4	2,581

STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	1.5122	1.5096	-0.0030	1.5164	1.5090	9,752	48,301
Sep	1.5080	1.5076	-0.0030	1.5100	1.5070	97	738
Dec	-	1.5060	-0.0030	-	1.5070	5	48

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.490	1.03	2.21	2.55	0.03	0.38	0.85
1.500	1.12	1.53	1.96	0.23	0.70	1.21
1.510	0.52	0.98	1.46	0.62	1.15	1.70
1.520	0.17	0.56	1.04	1.27	1.74	2.27
1.530	0.05	0.30	0.71	2.10	2.48	2.88

Previous day's vol., Calls 12,086 Puts 3,418 . Prev. day's open int., Calls 178,478 Puts 186,915

Pound in New York

May 24	—Close—	—Prev. close—
£ spot	1.5120	1.5135
1 mth	1.5112	1.5127
3 mth	1.5098	1.5113
1 yr	1.5050	1.5064

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Markets page in today's edition.

UK INTEREST RATES

LONDON MONEY RATES

May 24	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible] - 6	[illegible]	[illegible]
Sterling CDs	-	-	6 - [illegible]	[illegible]	[illegible] - 6	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	6 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	6 - 5½	[illegible]	-	-	-	-

UK clearing bank base lending rate 6 per cent from March 8, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4½

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on May 17, 5.8155pc. ECGD fixed rate Stg. Export Finance. Make up day Apr 30, 1996. Agreed rate for period May 26, 1996 to Jun 25, 1996, Schemes II & III 7.38pc. Reference rate for period Mar 30, 1996 to Apr 30, 1996, Schemes IV & V 6.079pc. Finance House Base Rate 6.5pc from May 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

	May 24	May 17		May 24	May 17
Bills on offer	£1000m	£1000m	Top accepted rate	5.8360%	5.8159%
Total of applications	£2699m	£3630m	Ave. rate of discount	5.8190%	5.8155%
Total allocated	£1000m	£1000m	Average yield	5.9047%	5.9011%
Min. accepted bid	£98.545	£98.550	Offer at next tender	£1000m	£1000m
Allotment at min. level	26%	78%	Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday May 22, 1996	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	894,573,000	-331,170,184
Bankers deposits	1,869,714,965	-48,738,637
Reserve and other accounts	3,924,518,347	+749,406,231
	6,703,359,312	+369,497,410
Assets		
Government securities	2,456,183,900	+916,595,000
Advance and other accounts	1,381,770,922	-11,084,405
Premise, equipment and other secs	2,853,154,455	-541,068,649
Notes	12,140,758	+3,123,362
Coin	109,277	-57,898
	6,703,359,312	+369,497,410
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	20,327,859,242	+286,876,638
Notes in Banking Department	12,140,758	+3,123,362
	20,340,000,000	+290,000,000
Assets		
Other Government securities	15,765,117,159	-117,040,684
Other Securities	4,574,882,841	+407,040,684
	20,340,000,000	+290,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	●Singer & Friedlander	6.00
AIB Bank	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	TSB	6.00
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	Unity Trust Bank Plc	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	Western Trust	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Whiteaway Laidlaw	6.00
Bank of India	6.00	Heritable & Gen Inv Bk.	6.00	Yorkshire Bank	6.00
Bank of Scotland	6.00	●Hill Samuel	6.00		
Barclays Bank	6.00	C. Hoare & Co	6.00		
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00		
●Brown Shipley & Co Ltd	6.00	Julian Hodge Bank	6.00		
Citibank NA	6.00	●Leopold Joseph & Sons	6.00		
Clydesdale Bank	6.00	Lloyds Bank	6.00		
The Co-operative Bank	6.00	Meghraj Bank Ltd	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		●Rea Brothers	6.00		

● Members of London Investment Banking Association
* In administration

UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)							
Treas 2pc 1996		[illegible]	0.1	1,200	Mr16 Se16	7.3	1313
Conversion 10pc 1996		[illegible]	-2	3,409	My15 Nv15	3.5	1340
Treas 13¼pc 1997‡‡		104½	-2	1,280	Jy22 Ja22	18.12	1302
Exch 10½pc 1997		[illegible]	-2	3,700	Au21 Fe21	[illegible]	[illegible]
Treas Cnv 7pc 1997‡‡		[illegible]	-1	1,888	Fe6 Au6	26.1	4491
Treas 7½pc 2006‡‡		[illegible]	-5	8,000	Ja7 De7	31.10	1149
Treas 7¾pc 2006‡‡		[illegible]	-5	3,900	Mr8 Se8	28.2	2300
Treas 8pc 2002-6‡‡		[illegible]	-4	2,000	Ap5 Oc5	27.3	1334
Treas 11¾pc 2003-7		[illegible]	-3	3,150	Jy22 Ja22	18.12	1293
Treas 8½pc 2007 ‡‡		[illegible]	-5	7,397	Ja16 Jy16	[illegible]	[illegible]
Treas 13½pc 2004-8		[illegible]	-4	1,250	Se26 Mr26	15.3	1301
Index-Linked	(b)						
4⅝pc '98‡‡	(135.6)	[illegible]	-	800	Ap27 Oc27	18.4	1753
2½pc '01	(78.3)	[illegible]	0.1	1,850	My24 Se24	14.3	1316
2½pc '03	(78.8)	174½	0.1	1,800	My20 Nv20	9.5	1317
4⅝pc '04‡‡	(135.6)	[illegible]	0.1	1,150	Ap21 Oc21	11.4	1255
2pc '06	(69.5)	[illegible]	-1	2,100	Ja19 Jy19	13.12	1314
2½pc '09	(78.8)	[illegible]	-1	2,200	My20 Nv20	9.5	1318
2½pc '11	(74.6)	[illegible]	-1	2,700	Fe23 Au23	14.2	1319

FT GOLD MINES INDEX

	May 24	% chg on day	May 23	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	[illegible]	-0.1	[illegible]	1879.64	1.34	-	2020.73	1729.90
Regional Indices								
Africa (13)	3090.31	-0.3	3098.44	2447.78	2.34	43.14	3353.86	2272.74
Australasia (6)	2575.40	+0.9	2553.09	2167.91	2.55	28.66	2827.34	2098.51
North America (12)	2046.30	[illegible]	2050.67	1677.14	0.68	71.95	2188.39	1488.94

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LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	6.10	143	133	Premiere Group	133	-5	L6.0	2.4	5.8	9.2
190	F.P.	2,180	229	205	Railtrack	216	-2	W20.6	2.6	6.4	7.5
-	F.P.	5.66	85	43	†Reflec	85	+7	-	-	-	-
-	F.P.	18.8	194½	98	Schroder Venture	194		-	-	-	-
72	F.P.	8.55	95	78	†Stentor	93		-	-	-	-
-	F.P.	-	97	95	Taiwan Inv Tst C	95		-	-	-	-
-	F.P.	25.2	14	7½	†Thomas Potts	14	+2	-	-	-	-
-	F.P.	2.99	56	43	†Tom Hoskins	53		-	-	-	-
450	F.P.	153.6	633	398	Vanguard Medica	620	-3	-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996 High	1996 Low	Stock	Closing price p	+or-
220	Nil	13/6	35pm	[illegible]	Chelsfield	35pm	+1½
55	Nil	13/6	16pm	8½pm	Ibstock	8½pm	
34	Nil	7/6	6pm	4pm	Porter Chadburn	6pm	

pm premium.

Elf Enterprise Finance PLC ("EEF")

(formerly known as EE Finance PLC)

£437,760,000 8¾ per cent. Guaranteed Exchangeable Bonds 2006 (the "Bonds")

guaranteed by

Elf Aquitaine ("EA")

(formerly known as Société Nationale Elf Aquitaine)

and exchangeable for ordinary shares of 25 pence each of

Enterprise Oil plc

Notice of Early Redemption to holders of Bonds in bearer form ("Bearer Bonds")

EEF hereby irrevocably gives notice to the holders of the Bearer Bonds, that, in accordance with Condition 12(b) of the Bonds, EEF will redeem at their principal amount all of the unexchanged Bearer Bonds which are currently outstanding on 28th June, 1996 (the "Required Redemption Date").

Consequently on 28th June, 1996 there will become due and payable on each outstanding unexchanged Bearer Bond the principal amount thereof together with accrued interest to the Required Redemption Date, at the office of the Principal Paying Agent:

S.G.Warburg & Co. Ltd.
2 Finsbury Avenue, London EC2M 2PP

or one of the other paying agents named on the Bonds.

Accrued interest will be calculated for one day on the basis of a 360 day year and will amount to £1.22 per £5,000 nominal Bearer Bond and £24.31 per £100,000 nominal Bearer Bond. Interest will cease to accrue on the outstanding unexchanged Bearer Bonds on 28th June, 1996, and these Bearer Bonds will become void unless presented for payment within a period of 10 years from that date. Matured Coupons will become void unless presented for payment within a period of 5 years from the due date of payment thereof.

Bearer Bonds for redemption and payment should be presented together with all "unmatured Coupons", unmatured Coupons meaning Coupons due to mature after the Required Redemption Date. Where any Bearer Bond is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as EEF and EA may reasonably require.

Notwithstanding the foregoing, the holder of any Bearer Bond will at any time up to and including 18th June, 1996 have the right to exchange the principal amount of such Bearer Bond into fully paid ordinary shares of Enterprise Oil plc.

Holders of Bearer Bonds wishing to sell their Bearer Bonds should note that EEF has appointed Barclays de Zoete Wedd Securities Ltd. and Cazenove & Co. to act as its agents to repurchase the Bearer Bonds in the marketplace.

28th May, 1996

The FT GUIDE TO WORLD CURRENCIES, published in Monday's newspaper and covering over 200 currencies, is now available by dialing the following number from the keypad or handset of your fax machine. 0891 437 001. Calls are charged at 39p/min cheap rate and 49p/min at all other times. For service outside the UK, please telephone +44 171 873 4378 for details on Cityline International.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 24 / Sch)

BELGIUM/LUXEMBOURG (May 24 / Frs.)

CZECH REP (May 24 / Korun)

DENMARK (May 24 / Kr)

FINLAND (May 27 / Mka)

FRANCE (May 24 / Frs.)

GERMANY (May 24 / Dm.)

GREECE (May 27 / Drachma)

ITALY (May 27 / Lire)

NETHERLANDS (May 24 / Fls.)

NORWAY (May 24 / Kroner)

POLAND (May 24 / Zloty)

PORTUGAL (May 27 / Escudo)

SPAIN (May 27 / Pta.)

SWEDEN (May 24 / Kronor)

SWITZERLAND (May 24 / Frs.)

TURKEY (May 27 / TL Lira)

PACIFIC

JAPAN (May 27 / Yen)

HONG KONG (May 27 / H.K.$)

INDONESIA (May 27 / Rupiah)

MALAYSIA (May 27 / MYR)

NEW ZEALAND (May 27 / NZ $)

SINGAPORE (May 27 / S$)

AUSTRALIA (May 27 / Aust$)

SOUTH KOREA (May 27 / Won)

TAIWAN (May 27 / TW $)

THAILAND (May 27 / Baht)

NORTH AMERICA

CANADA

MONTREAL (May 27 / Can $)
4 pm close

TORONTO (May 27 / Can $)
4 pm close

AFRICA

SOUTH AFRICA (May 27 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. ♯ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	May 27	May 24	May 23	1996 High		1996 Low	
Argentina							
General(29/12/77)	18490.15	18534.86	18427.21	18881.65	20/5	15228.81	19/3
Australia							
All Ordinaries(1/1/80)	2261.1	2264.2	2257.1	2320.00	26/4	2182.40	11/3
All Mining(1/1/80)	1070.4	1066.1	1065.5	1118.40	8/5	1004.70	16/1
Austria							
Credit Aktien(30/12/84)	(c)	392.19	393.52	394.34	22/5	352.78	2/1
Traded Index(2/1/91)	(c)	1134.10	1137.37	1137.51	22/5	975.27	2/1
Belgium							
BEL20(1/1/91)	(c)	1769.24	1764.62	1771.10	23/5	1574.86	2/1
Brazil							
Bovespa(29/12/83)	58280.0	58007.0	55309.0	56615.00	22/5	43801.86	2/1
Canada							
Metals Mins♦(1975)	6411.00	5397.17	5368.77	6624.60	8/5	4887.47	16/1
Composite♦(1975)	5235.50	5229.80	5223.20	5238.80	22/5	4739.70	15/1
Portfolio§§(4/1/83)	2585.55	2583.86	2567.40	2585.56	27/5	2327.38	12/1
Chile							
IGPA Gen♥(31/12/80)	5438.65	5473.88†	5469.32	5804.33	8/1	5218.28	8/4
Denmark							
CopenhagenSE(3/1/83)	(c)	405.16	405.49	408.10	24/5	368.40	2/1
Finland							
HEX General(28/12/90)	2058.05	2034.64	2022.14	2058.05	27/5	1851.67	10/1
France							
SBF 250(31/12/90)	(c)	1448.97	1444.26	1463.86	30/4	1250.16	2/1
CAC 40(31/12/87)	(c)	2117.85	2114.45	2146.79	30/4	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	(c)	898.46	904.93†	904.93	23/5	819.65	2/1
Commerzbank(1/12/53)	(c)	2581.4	2599.40	2601.90	23/4	2370.20	2/1
DAX‡(30/12/87)	(c)	2542.24	[illegible]	2570.78	21/5	2284.86	2/1
Greece							
Athens SE(31/12/80)	915.08	910.65	915.38	1017.98	4/3	901.83	29/4
Hong Kong							
Hang Seng(31/7/64)	11081.69	11019.16	11030.84	11594.99	16/2	10204.87	2/1
India							
BSE Sens.(1979)	3653.10	3708.25	3683.99	3989.87	24/4	2828.08	25/1
Indonesia							
Jakarta Comp.(10/8/82)	620.67	616.06	617.32	630.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2530.00	2536.34	2539.10	2547.28	21/5	2234.61	2/1
Italy							
Banca Comm Ital(1972)	663.77	662.32	668.18	674.10	20/5	572.21	23/3
MIB General(2/1/96)	1125.0	1122.0	1132.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21699.76	21798.43	21724.08	22282.05	24/4	19734.70	13/3
Nikkei 300(1/10/82)	306.59	307.33	306.88	318.06	26/4	[illegible]	11/2
Japan							
Topix(4/1/68)	1628.44	1654.55	1652.10	1718.90	25/4	1524.32	13/3
2nd Section(4/1/68)	2187.19	2204.03	2217.88	2243.38	2/5	1892.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1140.70	1151.60	1141.54	1166.64	30/4	983.18	2/1
Mexico							
IPC(Nov 1978)	(u)	3313.19	3316.04	3382.88	22/5	2738.36	8/3
Netherland							
CBS TtlRtnGen(End 83)	(c)	642.1	642.1	642.10	23/5	539.90	2/1
CBS All ShrEnd 83)	(c)	381.1	381.2	381.20	23/5	328.70	2/1
New Zealand							
Cap. 40(1/7/86)	2089.46	2088.3	2074.47	2283.88	4/1	2044.71	24/1
Norway							
Oslo SE(Ind)(2/1/83)	(c)	1422.48	1419.87	1444.22	29/4	1298.66	30/1
Philippines							
Manila Comp(2/1/85)	3234.10	3213.00	3196.25	3288.18	27/5	2868.97	2/1
Portugal							
BVL 30(4/1/93)	1877.58	1881.82	1869.89	1888.89	23/5	1682.81	2/1
Singapore							
SES All-S'pore(2/4/75)	580.01	585.86	579.62	610.37	5/2	563.80	2/1
South Africa							
JSE Gold(28/9/78)	1964.1♥	1973.1	1975.7	2288.90	17/5	1346.40	2/1
JSE Ind.(28/9/78)	7794.9♥	7789.5	7750.8	8739.30	25/1	7723.20	20/5
South Korea							
KoreaCmpEx**(4/1/80)	920.43	(c)	918.11	986.84	7/5	838.87	13/3
Spain							
Madrid SE(30/12/85)	363.79	362.83	362.64	383.95	21/5	323.25	11/1
Sweden							
AffarsvarldenGen(1/2/37)	(c)	1990.3	2001.5	2005.50	20/5	1765.80	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	(c)	1727.54	1717.76	1779.84	26/4	1508.19	17/1
SBC General(1/4/87)	(c)	1222.4	1213.74	1259.89	26/4	1114.07	29/1
Taiwan							
WeightedPr**(30/6/66)	5898.45	[illegible]	5790.76	6182.70	29/4	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	1311.20	1298.56	1286.33	1405.84	6/2	1267.70	13/3
Turkey							
Istanbul Comp.(Jan 1986)	58752.42	61123.9	60613.1	72886.60	8/4	38770.38	2/1
WORLD							
MS Capital Intl(1/1/70)	778.6*	777.3	777.2	780.30	22/5	725.80	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	(c)	1686.85	1690.78	1698.84	21/5	1594.40	11/1
Euro Top-100(26/6/90)	1442.96	1441.19	1443.32	1458.28	26/1	1333.01	11/1
HSBC JC Drgn(31/12/88)	(u)	(u)	376.57	383.16	16/1	344.19	2/1
ING Brngs Emrg(7/1/92)	161.39	161.84	162.08	164.14	14/5	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol	Open int.
CAC-40 (200 x Index)							
May	2112.0	2113.0	+10.0	2120.0	2110.0	10,761	28,847
Jun	2091.0	2098.5	+10.5	2099.5	2090.0	4,292	33,016
DAX							
Jun	2547.0	2554.0	+7.0	2555.0	2537.5	13,806	-
Sep	2565.0	2572.5	+4.5	2570.0	2557.0	241	-
OMX							
May	1563.50	1558.00	-14.00	1563.50	1557.50	847	6,901
Jun	1564.00	1556.00	-16.75	1566.50	1554.00	2,069	15,884
SOFFEX							
Jun	3524.0	3544.5	+16.5	3545.0	3511.1	5,820	24,926
Jul	3519.0	3543.0	-12.3	3521.1	3519.0	52	2,888

** Sat May 25: Taiwan Weighted Price 5809.41; Korea Comp Ex 911.76. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7, JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: May 24 - 2548.53 +2.98.

US INDICES

Dow Jones	May 24	May 23	May 22	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5762.86	5762.12	5778.00	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (2/7/32)
Home Bonds	101.88	101.67	101.75	108.88 (14/2)	101.19 (8/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2275.04	2280.70	2286.39	2286.20 (22/5)	1882.71 (10/1)	2286.28 (22/5/96)	12.32 (8/7/32)
Utilities	214.82	213.67	215.41	234.88 (12/2)	205.42 (7/5)	256.45 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5815.60 (5833.04) Low 5722.59 (5704.12) (Theoretical)
Day's high 5788.72 (5798.10) Low 5745.13 (5728.50) (Actual)

Standard and Poors	May 24	May 23	May 22	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	678.51	676.00	678.42	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials‡	807.32	805.09	808.72	807.32 (24/5)	702.87 (15/1)	807.32 (24/5/96)	3.62 (21/6/32)
Financial	69.69	67.57	68.11	69.56 (5/3)	58.67 (10/1)	69.56 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	363.74	362.43	363.09	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (28/4/42)
Amex Mkt Val	613.95	612.88	614.89	614.89 (22/5)	529.05 (18/1)	614.89 (22/5/96)	29.31 (9/12/72)
NASDAQ Comp	1247.81	1249.65	1247.38	1249.65 (23/5)	988.57 (15/1)	1249.65 (23/5/96)	54.87 (31/10/72)

RATIOS

	May 17	May 10	May 3	Year ago
Dow Jones Ind. Div. Yield	2.17	2.20	2.21	2.54
	May 22	May 15	May 8	Year ago
S & P Ind. Div. yield	1.83	1.85	1.92	2.21
S & P Ind. P/E ratio	22.71	21.98	21.26	18.77

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
LSI Logic	8,588,300	29¼	-2⅛
K-Mart	6,692,500	11	+⅛
Ph Morris	6,422,500	103¼	-⅜
Stone Cont	6,041,900	16⅛	-⅛
HFS	4,915,700	62¾	-⅛
RJR Nabisco	4,442,200	33⅛	+⅜
Bay Network	3,802,200	29¾	-1⅛
Nabisco	3,465,500	40¼	+1⅛
Ford Motor	3,256,500	36¾	-⅛
Coca Cola	3,188,300	47⅝	+1⅛

TRADING ACTIVITY

Volume (million)	May 24	May 23	May 22
New York SE	331,282	434,858	423,655
Amex	34,176	33,599	29,301
NASDAQ	626,131	778,898	711,652
NYSE			
Issues Traded	3,122	3,161	3,147
Rises	1,166	986	1,308
Falls	1,069	1,333	1,011
Unchanged	885	832	830
New Highs	167	162	178
New Lows	23	21	18

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
S&P 500							
Jun	678.35	680.60	+2.15	682.25	678.45	77,248	178,180
Sep	685.10	686.35	+2.15	687.75	684.50	4,816	21,519
Nikkei 225							
Jun	21680.0	21800.0	-40.0	21860.0	21650.0	22,658	272,449
Sep	21730.0	21900.0	+30.0	21930.0	21730.0	85,640	45,199

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Monday, May 27, 1996

	Stocks Traded	Closing Prices	Change on day
Kanematsu	20.8m	715	+56
Fuji Heavy	8.8m	498	+5
Kobe Steel	5.3m	302	-4
Nippon Steel	4.7m	361	-8
Daiichi Kangyo	4.6m	1930	-20
Chisan Tokan	3.7m	627	+20
BK TK-Mitsubishi	3.6m	2490	+20
Nagasakiya	3.0m	987	-53
Sakai Heavy	2.5m	1380	-130
Mitsubishi Heavy	2.2m	916	-4

WORLD STOCK MARKETS

AMERICA

Gold miners bring life to tired Toronto

Canada

With Wall Street closed for Memorial Day, Toronto opened drowsily and looked little different at midsession, the TSE 300 composite index easing 0.64 to 5,229.21 in turnover described as "skimpy".

However, there was some action in individual stocks. *Black Swan Gold Mines* extended its recent popular run, topping active stocks and climbing 15 cents to C$1.47.

Bre-X Minerals jumped C$3.35 to C$28.40, also in heavy trading, after last week's 10-for-one stock split, and Arequipa Resources moved up C$1.70 to C$31.20, continuing a rise sparked by Friday's release of the first drill results for its Pierina gold property in Peru.

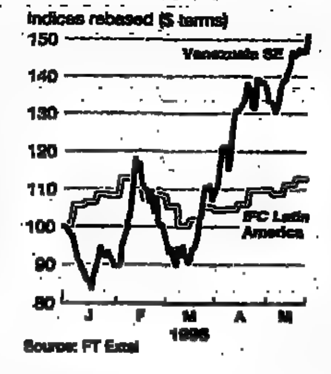
Latin America

Renewed government commitment to economic reforms, and falling yields for fixed income paper, helped take CARACAS to its ninth successive all-time high. Buoyed recently by foreign interest in what were seen as reasonably priced shares, the IBC index rose another 167.32, or 3.8 per cent, to 4,585.98 at midsession.

Elsewhere in the region, there was less inspiration, dealers blaming the US holiday. MEXICO CITY was trading slightly lower early in the day, the IPC index relinquishing 0.91 at 3,312.28.

Venezuela

Indices rebased ($ terms)



Source: FT Extel

ASIA PACIFIC

Politics move share prices in India and Thailand

Equities weakened further in BOMBAY as India's parliament opened the debate on the confidence motion in the country's first Hindu government.

The opposition was confident that it would topple Mr Atal Bihari Vajpayee, the prime minister, after barely two weeks in power, and the BSE 30-share index closed 56.15 lower at 3,653.10.

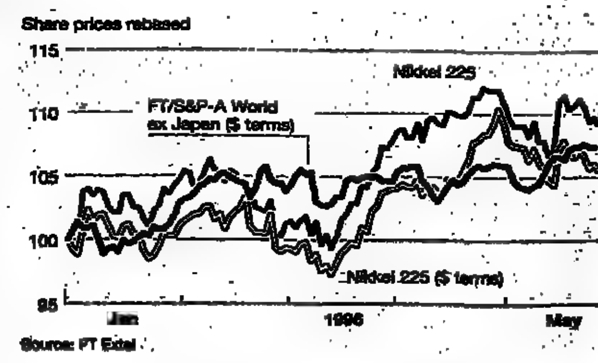
Shares in the Industrial Credit and Investment Corporation (ICICI) fell Rs3.75, or 3.9 per cent, to Rs92 as analysts said that the higher cost of funds was likely to have cut into profits growth in 1995/96.

BANGKOK finished higher after moderate trading yesterday on the expectation that a new cabinet line-up, due to be announced soon, would be an improvement on the present one.

The SET index was finally 11.65 ahead at 1,311.20 in turnover of Bt5.3bn. Banharn Silpa-archa, the Thai prime minister, is expected to announce a cabinet reshuffle some time this week in which some less popular ministers are expected to be dropped.

Japan

Share prices rebased



Source: FT Extel

Tokyo

Small lot profit-taking and technical selling weighed on share prices and the Nikkei average ended moderately easier, *writes Emiko Terazono in Tokyo.*

The 225-share index closed 98.67 down at 21,699.76 after moving between 21,557.48 and 21,853.04.

Some traders had hoped that funds from postal life savings and newly launched investment trusts would boost share prices, but the amounts remained small and failed to induce purchases from other domestic institutions. Instead, profit-taking and arbitrage linked selling weighed on investor confidence and the Nikkei finally closed lower on the day.

Volume totalled 306m shares, the fifth lowest of the year, against Friday's 374m. Brokers remained inactive since today is the last trading day for May delivery. Overseas investors were seen selling in small lots, while some individuals chased speculative favourites.

The Topix index of all first section stocks receded 6.11 to 1,658.44 and the Nikkei 300 finished 0.74 softer at 306.59. Losers outscored gainers by 735 to 329, with 164 issues remaining unchanged.

Nomura Securities dipped Y50 to Y2,050 on selling by a leading US brokerage house. Other brokers were also lower, with Nikko Securities down Y10 to Y1,180 and Yamaichi Securities losing Y5 to Y762.

Companies which had announced weak earnings forecasts for the current year lost ground on profit-taking.

Fuji Photo Film plunged Y210 to Y3,160 on overseas related selling. Investors were discouraged by the company's forecast of an 11 per cent fall in recurring profits for the current year to next March.

Banks – many of which had fallen into the red last year, due to bad loan write-offs, and which are forecasting small profits for the current year – were sold. Dai-Ichi Kangyo Bank shed Y20 to Y1,930 and Sumitomo Bank lost Y10 to Y2,010.

Technology issues were lower in spite of the rebound in the dollar against the yen, as fears of faltering semiconductor demand continued to weigh on electrical stocks. Oki Electric declined Y5 to Y760 and Sharp Y20 to Y1,760.

In Osaka, the OSE average slipped 61.47 to 23,011.64 in volume of 21.2m shares.

Roundup

Karachi was closed yesterday, and will remain shut today for a religious holiday. SEOUL recovered after last week's slide, a technical rebound taking the composite index up 8.67 to 920.43.

The Bank of Korea said GDP grew by a real 7.9 per cent in the January-March period compared with 10 per cent a year earlier, but while this was a little higher than expected, said brokers, it had little effect on share prices.

LG Electronics closed at its limit high of Won21,700, up Won1,200, on hopes that it would benefit from the initial public offering by its affiliate, LG Semicon Co.

MANILA broke through its 3,250 resistance level, foreign institutional buying taking the composite index up 43.01, or 1.3 per cent, to close at the day's peak of 3,256.10.

Confidence in the economy was building up, said brokers, and the $1¼ gain to $56⅞ in Philippine Long Distance Telephone in New York on Friday also boosted local sentiment.

JAKARTA saw active buying of bank stocks, particularly of Bank Dagang Nasional Indonesia (BDNI), which projected a 20 per cent annual growth in net profits for 1996. BDNI rose Rp100 to Rp2,575 in active trading, the sector followed, and the JKSE composite index moved forward 2.61 to 620.67.

HONG KONG had a thin day with Wall Street and London on holiday, turnover sliding to another year's low of HK$2.74bn as the Hang Seng index rose 62.53 to 11,081.69.

Newly listed China Elegance hit the ceiling, then subsided. It finished 3 cents ahead at HK$1.97, well below a day's high of HK$2.425, after rocketing to HK$1.94 at its debut on Friday from the issue price of HK$1.03.

SHANGHAI's B share market, meanwhile, staged a technical rally, the index edging up 0.129 to 49.256 in 3.2m shares worth $1.1m after its sharp fall last week.

SINGAPORE ended mixed in a quiet session enlivened by Singapore Telecom, which rang up a 28-month high. SingTel put on S$0.12 at S$3.86 and topped the active list on 10.28m shares dealt after a Reuter report which reckoned on double-digit net profits growth for the year to last March 31.

The Straits Times Industrial index dipped 0.63 to 2,350.43.

KUALA LUMPUR fell nearly a percentage point, the KLSE composite index losing 10.99 at 1,140.78, but brokers blamed consolidation and thin volume, saying that the decline reflected a buyers' strike rather than strong selling.

Requotes had mixed luck: Pacific Bank went limit-up following the announcement of merger talks, although it came back from M$14.50 to close M$1.80 higher at M$13; but Autoindustries hit profit-taking on its integrated chip understanding with Atmel, of the US, and closed M$1.90 lower at M$18.90.

EUROPE

Helsinki stays impressionable

Most senior bourses were closed for Whit Monday. HELSINKI stayed impressionable, the wholesaler Kesko putting on FM3, or 5.2 per cent, at FM60.50 after it bought a majority stake in its rival, Tuko. The Hex index rose 21.41 to 2,056.05.

Turnover was FM221m, 20 per cent of that in Kesko, and 36 per cent in Nokia, up FM7.70 at FM197.20 after its gain on Wall Street last Friday.

MILAN thanked continued strength in the newly floated oil and chemicals major ENI for a positive conclusion to a thin day.

Following ENI's news of a good first quarter at its meeting last Friday, the shares advanced L172, or 2.5 per cent, to L7,187 and the Mibtel index gained 65 at 10,617.

The cement group Calcestruzzi was less fortunate, falling L160 to L5,240 following news of a potential capital increase to fund the acquisition of two Greek companies.

MADRID reversed its early losses on late buying, and the general index closed 0.96 higher at 363.79. However, traders said that the market was on standby because of holidays in other European centres, and volume, a mere Pta16m, was boosted by block trades as people switched investments between accounts.

Telefonica was among the main climbers, moving ahead Pta25 to Pta2,305.

TEL AVIV shrugged off a rate rise from the Bank of Israel. Equities followed Sunday's advance of 1.5 per cent with a further gain, the Mishtanim index adding 1.61, or 0.8 per cent, at 211.28.

ISTANBUL slid another 3.9 per cent after a drop of 7 per cent last week, political fears escalating due to an Islamist censure motion against the ailing minority coalition.

The composite index finished 2,371.56 weaker at 58,752.42, hitting a low of 58,123 in late trade after senior aides to the coalition partner, Mrs Tansu Çiller, said that their party would support the Islamist motion.

Written and edited by William Cochrane

Henkel rerating divides analysts

Best known in Germany for Persil washing powder, Henkel has seen a remarkable rerating since mid-April, writes William Cochrane. At one point last week, the preferred shares were up by 22 per cent over some six weeks, against a 2.3 per cent rise in the Dax index.

The performance followed mundane 1995 results from the consumer goods and chemicals company, with profits 5 per cent ahead on a 1 per cent increase in sales. However, the company's meetings with analysts and institutions were spiced with financial engineering: it announced the conversion of one in 10 of its preferred shares to ordinaries, and espoused the concept of shareholder value.

The prefs conversion raised Henkel's weighting in the Dax 30-share index and made it much less likely that the stock would be dropped as a constituent when Deutsche Telekom enters, following its flotation later this year. This was a genuine relief for outside holders who had seen Deutsche Babcock hammered down, before and after the engineer was excluded from the 30 last year.

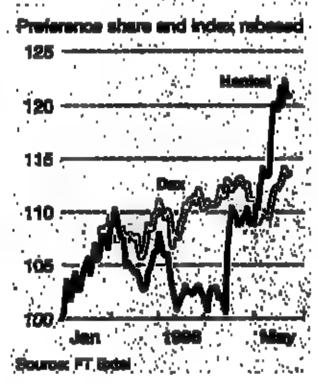
The apparently joyous share price reaction has coincided with outperformance elsewhere in the depressed German consumption, and construction, sectors, and it has analysts in two minds: some of them think that the poor quality of Frankfurt's recent share price winners reflects a fragile phase of the bull market.

But Mr Hans-Peter Wodniok at Crédit Lyonnais in Frankfurt thinks the plan has merit. He says that, until recently, the Henkel family, with around 70 members and now in its seventh generation since the founding of the company, was not interested in high share prices: members did not want to sell; and, even if they did not, they had to face the German wealth tax which was based on the market value of the Henkel preferred shares.

In mid-April, management revealed that some family members had said recently that they would sell; the wealth tax is due to be abolished by the end of this year; and with last week's proposed 1997 tax revisions, the Federal government signposted a compensating increase in inheritance tax, which will move the problem from the current owners to their heirs.

Henkel

Preference share and index rebased



Source: FT Extel

S Africa quiet but Absa rises

With foreigners on holiday, local institutions stayed on the sidelines and the key Johannesburg indices reflected this: the all-share rose one point to 6,689.4 and industrials firmed 5.4 to 7,794.9, while golds slipped 9.0 to 1,984.1.

However, Amalgamated Banks of South Africa (Absa) had a good day, the shares forging ahead R175, or 8.4 per cent, to R2,250. Having turned in stronger growth than its peers in the year to last March 31, Absa promised to narrow the gap between itself and other banks in terms of key operating ratios.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.92	8.91	8.91
0100	8.90	8.91	8.91
0130	8.90	8.91	8.91
0200	12.74	14.06	15.33
0230	12.74	14.06	15.33
0300	12.74	14.06	15.33
0330	8.70	14.06	15.33
0400	8.70	6.09	7.30
0430	8.70	6.09	7.30
0500	8.70	6.05	7.30
0530	8.70	8.47	9.69
0600	8.91	8.92	8.92
0630	8.91	8.92	8.92
0700	8.70	8.42	9.69
0730	8.70	8.42	9.69
0800	8.70	8.95	8.95
0830	12.46	8.42	9.69
0900	13.66	13.09	14.36
0930	13.66	13.22	14.49
1000	13.66	13.22	14.49
1030	13.66	13.62	15.15
1100	19.60	18.36	20.24
1130	19.80	21.07	22.34
1200	21.70	22.06	23.33
1230	23.25	22.06	23.33
1300	23.25	22.06	23.33
1330	21.70	21.07	22.34
1400	18.71	18.96	20.24
1430	14.69	13.89	15.16
1500	13.66	13.74	15.02
1530	13.55	8.97	8.97
1600	13.55	8.97	8.97
1630	12.98	13.22	14.49
1700	13.55	13.89	15.16
1730	13.65	13.74	15.02
1800	13.66	13.89	15.16
1830	13.55	13.74	15.02
1900	13.55	13.74	15.02
1930	12.99	13.74	15.02
2000	8.95	13.74	15.02
2030	8.95	13.89	15.16
2100	8.95	24.54	25.81
2130	8.96	33.44	34.71
2200	13.66	33.44	34.71
2230	20.74	24.18	25.45
2300	13.65	20.04	21.31
2330	20.74	14.99	16.26
2400	8.93	8.42	9.69

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £15.65/MWh becomes 1.565p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8:30am and 5:15pm Monday to Friday.

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0100	8.89	8.92	8.92
0130	8.89	8.95	8.95
0200	8.89	13.09	14.49
0230	8.89	13.09	14.49
0300	8.89	13.09	14.49
0330	8.89	13.09	14.49
0400	8.89	13.09	14.49
0430	8.89	13.09	14.49
0500	8.88	13.09	14.49
0530	8.89	8.95	8.95
0600	8.90	8.95	8.95
0630	8.90	8.95	8.95
0700	8.90	16.70	18.10
0730	8.90	17.42	18.82
0800	13.33	21.62	23.04
0830	14.27	23.53	24.97
0900	14.27	28.46	29.94
0930	14.27	28.61	30.13
1000	14.88	41.09	42.60
1030	14.88	41.07	42.63
1100	18.89	41.01	42.55
1130	21.67	28.64	30.17
1200	21.67	28.63	30.16
1230	21.67	28.59	30.11
1300	21.67	28.52	30.02
1330	14.88	28.39	29.85
1400	14.88	28.33	29.77
1430	14.88	26.04	27.47
1500	14.00	25.90	27.33
1530	8.94	25.90	27.32
1600	8.93	23.54	24.96
1630	8.95	41.52	42.98
1700	14.88	41.59	43.06
1730	14.88	41.56	43.02
1800	14.88	41.45	42.89
1830	14.88	23.45	24.88
1900	13.51	23.43	24.83
1930	8.94	21.44	22.84
2000	8.94	21.44	22.84
2030	8.92	21.44	22.84
2100	8.92	41.67	43.07
2130	8.95	44.50	45.91
2200	14.86	44.50	45.91
2230	14.88	21.44	22.84
2300	14.86	17.42	18.82
2330	13.51	15.00	16.40
2400	8.80	12.86	14.26

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £15.65/MWh becomes 1.565p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8:30am and 5:15pm Monday to Friday.
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0100	8.91	8.98	8.98
0130	8.90	8.98	8.98
0200	8.90	12.66	13.93
0230	8.91	12.69	13.76
0300	8.91	12.66	13.93
0330	8.90	12.69	13.76
0400	8.90	12.69	13.76
0430	8.90	12.69	13.76
0500	8.91	12.54	13.80
0530	8.92	12.14	13.20
0600	8.90	12.14	13.20
0630	8.90	9.00	9.00
0700	8.95	16.65	17.91
0730	12.66	21.77	22.84
0800	16.44	24.28	25.39
0830	17.02	24.37	25.51
0900	17.16	24.48	25.63
0930	17.42	24.50	25.67
1000	17.42	38.12	39.29
1030	20.18	38.11	39.29
1100	20.18	24.47	25.64
1130	20.18	24.62	25.70
1200	39.15	38.18	39.38
1230	39.15	38.15	39.33
1300	39.15	38.03	39.18
1330	17.43	24.28	25.39
1400	17.42	22.52	23.61
1430	17.42	22.50	23.60
1500	17.42	22.50	23.59
1530	17.42	22.50	23.59
1600	17.42	22.57	23.66
1630	17.43	23.49	24.65
1700	21.98	23.62	24.81
1730	37.02	34.60	35.77
1800	37.01	34.48	35.58
1830	17.42	23.23	24.31
1900	17.16	23.21	24.28
1930	17.16	23.21	24.28
2000	17.16	23.21	24.28
2030	17.16	23.21	24.28
2100	17.16	23.21	24.28
2130	19.34	43.00	44.07
2200	31.59	43.00	44.07
2230	31.58	20.82	21.89
2300	31.59	16.50	17.56
2330	18.08	16.85	17.91
2400	8.95	12.58	13.62

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £15.65/MWh becomes 1.565p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8:30am and 5:15pm Monday to Friday.
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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Atlantis Fund Management (Guernsey) Ltd

BZW Asset Management Guernsey Ltd

Bachmann Global Investment Fund Ltd

IRELAND (SIB RECOGNISED)

LGT Asset Management Ltd

IRELAND (REGULATED)(**)

Daiwa Europe Fund Mgrs Ireland Ltd - Contd.

Dragon Korea Fund Plc

Dynamic Pacific Portfolio Fund Plc

Egerton Capital European Fund Plc

Emerging Dynamic Fund Plc

Emerging Market Growth Fund Plc

F.I.T. Investment Trust Ltd (u)

Falcon Market Fund Plc

Framlington Investment Mngmt (Ireland) Ltd

Frank Russell Investments (Ireland) Ltd (u)

Fresh Korea Fund

GM Fund Management (Ireland) Ltd

Gartmore Korea Fund Plc

Global Resources Stock Fund

ISLE OF MAN (SIB RECOGNISED)

Bank of Ireland Asset Mngmt (IOM) Ltd

Clll Fund Managers (IoM)

Mercury Fund Managers IoM Ltd

Quilter Intl Mngt (IoM) Ltd

Sun Life Management (IoM) Ltd

Ulster Bank Global Funds Plc

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

AXA Equity & Law Intl Fund Mgrs

JERSEY (SIB RECOGNISED)

INVESCO International Limited - Contd.

Jupiter Tyndall (Jersey) Ltd

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Fidelity Funds - Contd.

Sarasin Investment SICAV (u)

Schroder International Selection Fd (u)

LUXEMBOURG (REGULATED)(**)

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هكذا من الأصل

FT MANAGED FUNDS SERVICE

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

Notes	Price	Wk % ch'nge	Div net	Dividends paid	Mkt cap £m	Last xd	City line
[illegible]							

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER FINANCIAL - Cont.

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ✠ Figures or report awaited
- ♥ Rule 2.1(a)(i) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ✦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: **Additions:** Nationsbank (Bk Retl), Cairngorm BS Units, Perp Inc Gwth Wts, Schroder UK Gwth Wts, Singer & Fried AIM Ord & Wts and Taverners Wts (Inv Tst), AIM Distribs (Inv Co), FNR, Sira Busn Servs, Tradepoint, Waterfall (AIM). **Deletions:** Burnaine (Extr Inds).

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Comprehensive 10-14 page report available on this company, containing key FT stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements for £6.45.

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For readers phoning from outside UK, please dial +44 in place of the first 0.

The share prices printed on these pages are also available on the Internet at www.FT.com.

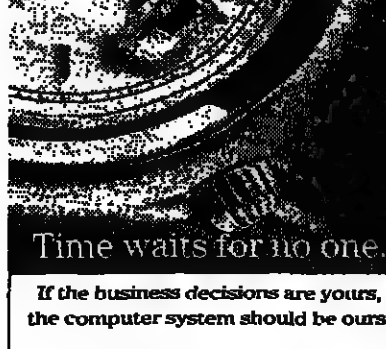
NEW YORK STOCK EXCHANGE PRICES

4 pm close May 24

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¾	18⅛	AAR	0.48	2.1	24	127	23⅛	22½	22½	-⅜
48⅛	38⅜	AMP	1.00	2.3	21	2472	43	42⅝	42⅞	+⅛
97½	68	AMR			23	3083	94⅝	93⅝	94⅜	-½
50½	37⅜	ASA x	1.80	4.1	29	1026	44⅜	44	44	-¼
44¾	38⅛	AbbtL	0.96	2.2	19	11458	42⅞	41½	42¾	+1¼
17⅛	13⅜	Abitibi Pr	0.40	2.9	7	354	14⅛	13⅞	13⅞	-¼
36	27	ABM Ind	0.70	2.0	18	47	35	34⅞	35	-¼
17⅛	13⅞	Acptincelo			44	368	u17⅛	16½	17	+⅜
50⅜	37¾	ACE Ltd	0.56	1.2	11	1135	48⅞	48	48⅝	+⅝
9⅞	9⅛	ACM Gvt In	0.90	9.1	8	122	u9⅞	9¾	9⅞	+⅛
7⅞	6¾	ACM GvOpp	0.57	8.3		139	6⅞	6⅞	6⅞	
7¼	6¼	ACM Gvt Sp	0.66	10.4		365	6½	6⅜	6⅜	
9⅛	8¼	ACM Gvt Sa	0.90	10.4		151	8⅝	8½	8⅝	+⅛
9½	8¾	ACM Man	0.90	10.0		162	9	9	9	-⅛
30¾	16½	AcmeClv	0.52	1.7	7	29	30¼	30⅛	30⅛	
13⅞	6⅛	Acme Elect			63	155	11¾	11⅜	11⅜	-⅛
32½	27¾	Acordia	0.72	2.3	19	27	31⅞	31¾	31¾	-⅛
21⅜	12	Acuson			88	376	19½	19¼	19½	
19½	18⅜	Adams Expr x	1.66	8.6	0	756	19¼	19⅛	19¼	+⅛
21¼	16⅛	AdvMic			7	5065	17½	17¼	17⅜	-¼
11⅛	8½	Advest Grp	0.16	1.5	8	67	11	10⅞	11	+⅛
26⅛	9⅛	Advo Inc	0.10	0.9	60	400	11	10¾	10⅞	
50⅜	41⅛	Aegon	1.23	2.5	15	15	49¼	49	49	-¼
6¾	3½	Aeritz			4	288	6¼	6	6⅛	+¼
78¾	66⅜	AetnaL	2.76	3.7	19	1742	75	74½	74⅝	-¼
33	28¾	Aflac x	0.40	1.3	13	2160	31⅜	30⅝	31⅛	+½
20⅜	17½	AGL Res	1.08	5.9	15	236	18	17¾	17⅞	+⅛
28¾	21¼	Ahmnsn x	0.88	3.4	7	864	26	25¾	25⅞	+⅛
59¼	50⅜	AirPrC	1.10	1.9	15	4805	59⅛	58	59	+1½
28⅜	23½	Airbne Frt	0.30	1.1	24	323	26¾	26½	26½	-¼
22½	15½	Airgas Inc			36	1170	22	21⅞	22	+⅛
16⅞	15	Airlease	2.00	11.9	10	29	16¾	16⅝	16¾	+⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32⅞	26⅝	BrckGd	0.12	0.4	39	3779	31⅛	30¾	31⅛	+⅜
19⅝	14⅞	BarryRG			19	65	19⅛	18⅞	19	
11⅝	8½	BattlM	0.06	0.6	875	1999	8¾	8⅝	8¾	
42½	36⅛	Bausch	1.04	2.5	21	445	42⅛	42	42⅜	+⅜
47½	39¼	Baxter	1.21	2.7	18	2810	44⅜	43⅞	44¼	+¼
43⅜	26	BayNtwks			27	28000	31	29¾	29⅞	-1⅛
29⅞	26½	Bay St Gas x	1.64	5.8	12	49	27	26¾	26¾	-⅛
40⅞	23¼	BBN			9	249	28¾	27⅝	27⅞	-¾
22¾	20⅛	Bd Tr 1838	1.56	7.8		46	20⅝	20⅜	20½	-⅛
8½	7¾	BEA IncFd	0.72	8.9		93	8⅛	8	8⅛	
9⅜	8½	Bea Strat	0.81	9.1		17	8⅞	8¾	8⅞	+⅛
24⅞	17¼	Bear Strns x	0.57	2.3	8	1166	24⅝	24¼	24⅜	-⅛
44½	41	BearStPIA	2.75	6.4		3	42¾	42¾	42¾	
33¾	24	Bearings x	0.56	1.9	16	71	30⅛	30	30⅛	+⅛



- C -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- D -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- E -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- F -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- G -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- H -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- I -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- J -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- K -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- L -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- M -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- N -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- O -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- P - Q -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- R -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- S -

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

NYSE PRICES

4 pm close May 24

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close May 24

AMEX PRICES

4 pm close May 24

FT GUIDE TO THE WEEK

TUESDAY 28

India vote of confidence

A vote of confidence by India's newly elected parliament decides the fate of the two-week-old government of the Bharatiya Janata Party under the prime minister, Atal Bihari Vajpayee. The Hindu nationalist BJP is likely to lose the vote against the combined weight of the United Front – a coalition of regional and secular parties – the Congress party and India's main communist parties. Should the BJP fall, India's president, Shankar Dayal Sharma, is expected to invite Deve Gowda, the head of the United Front, to form the next government.

EU urged to speed up laws

EU ministers responsible for single market legislation meet in Brussels – to be told progress in sweeping away trade barriers is not fast enough. Mario Monti, the single market commissioner, will report that the gap between member states' declarations and their actions is still too wide when implementing single market rules. He will tell ministers that only 90 per cent of EU single market measures have been adopted into national law.

Cardoso visits France

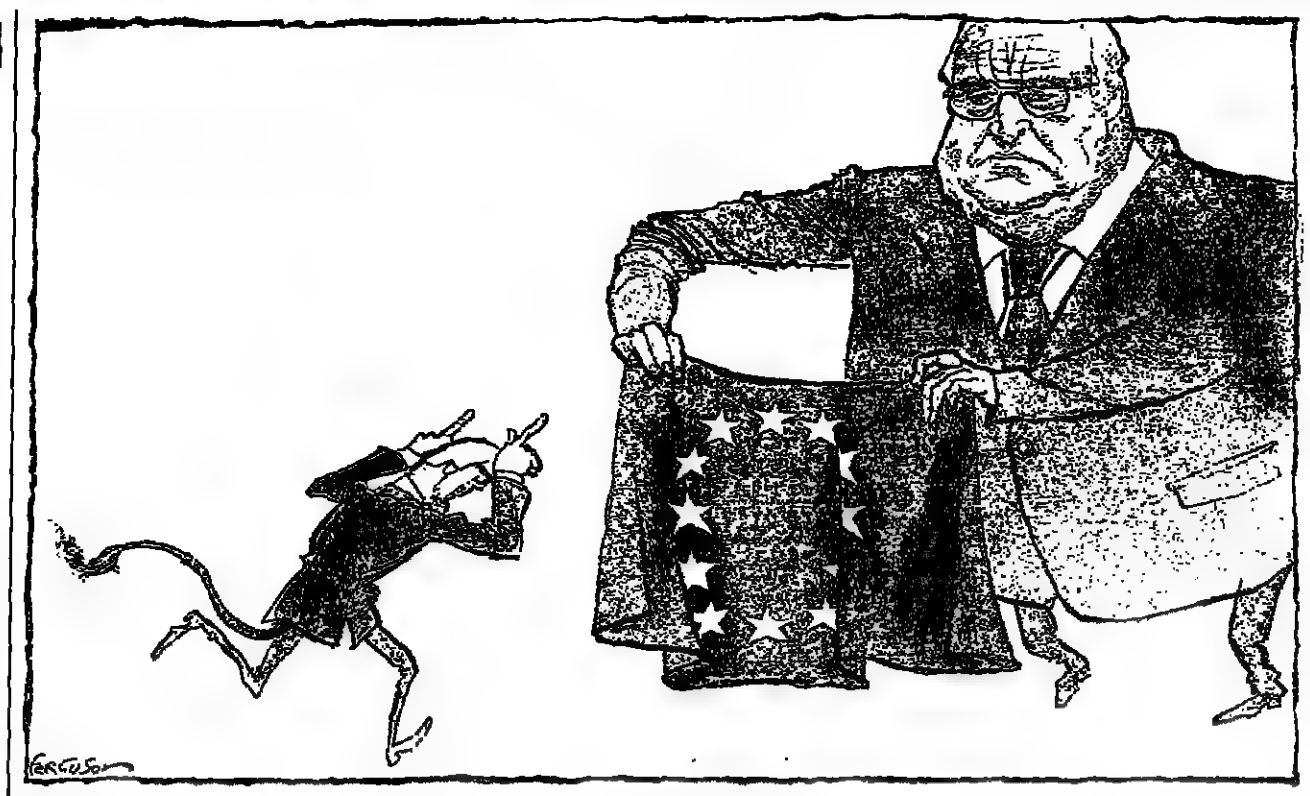
Fernando Henrique Cardoso, Brazil's president, meets Jacques Chirac, his French counterpart, on his first overseas trip since police gunned down at least 19 landless farmers. The killings sharpened concern about the slow pace of social progress in Brazil and damaged Mr Cardoso's campaign to improve the country's image. Mr Cardoso will visit Renault – which recently confirmed a decision to build a factory in southern Brazil. Increased French interest in Brazil is reflected in the emergence of Electricité de France, the state power company, as the latest high-profile investor there after becoming the biggest shareholder in Light, the Rio de Janeiro electricity company.

Biodiversity in Latin America

Regional government and independent delegates will thrash out environmental policies, intellectual property rights and conservation at the Latin American Biodiversity Forum in the Colombian city of Santa Marta. The emphasis will be on a fair distribution of the benefits derived from biodiversity.

Manila pushes for tariff cuts

Abdullah Ahmed, the Malaysian foreign minister, arrives in Manila to meet his counterpart in the Philippines, Domingo Siazon. The two countries, members of the Association of South-East Asian nations (Asean), are expected to discuss the Philippines' chairmanship of the Asia Pacific Economic Cooperation (Apec) forum. Manila has proposed that Asean extend its internal tariff-cutting measures to the rest of Apec on a unilateral or most favoured nation basis. The Philippines is expected to have difficulty persuading its Asean partners, notably Malaysia and Thailand, to accept this.



The UK prime minister, John Major, lowers his horns to go headlong into battle with the European Union over the "mad-cow" beef crisis

Nordic foreign ministers

Foreign ministers from Finland, Sweden, Norway, Denmark and Iceland hold their biannual meeting on the Aland Islands, Finland (to May 29).

Bottomley in Japan

Virginia Bottomley, the UK secretary of state for national heritage, visits Japan to boost cultural and trade ties (to May 31).

Tennis

The French Open, which started on Monday, continues in Paris (to June 9).

FT Survey

Madeira.

Public holidays

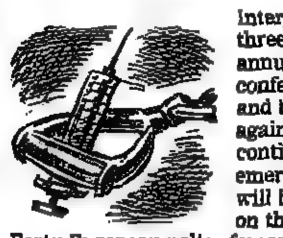
Armenia, Azerbaijan, Ethiopia, Virgin Islands, Iran, Pakistan (depending on sighting of moon).

WEDNESDAY 29

Israel goes to the polls

Israelis elect a prime minister and parliament in what the parties are billing as the most crucial election in the history of the Jewish state. A high turnout is expected among the 3.9m registered voters. Shimon Peres, the prime minister, has asked for a mandate to continue negotiations with the Palestinian Authority towards a final peace agreement. He became prime minister after a Jewish opponent of the peace process gunned down his predecessor, Yitzhak Rabin. Mr Peres' challenger, Benjamin Netanyahu, the Likud party leader, would adopt a hard-line policy which could grind the process to a halt.

Interpol gathers in Warsaw



Interpol begins its three-day, 25th annual European conference. Drugs and the fight against the continent's newly emerging mafias will be prominent on the agenda. Forty European police forces are to be represented, with observers from the EU's Europol attending the first meeting of its kind in the Polish capital.

Red Cross disasters report

Hunger and refugees are the main themes of the annual world disasters report to be released by the International Federation of Red Cross and Red Crescent Societies. The number of refugees and displaced people will double during the next 10 years – at a time when relief budgets are receding.

Kohl in Portugal

Helmut Kohl, the German chancellor, makes his first official visit to Portugal since the Socialist government took office six months ago. Mr Kohl has found an ally in António Guterres, the Portuguese prime minister, in support of more European integration and expansion. But Portugal, trying hard to meet the convergence criteria for European monetary union, seeks assurances that EU funds for Portugal will not diminish when new states are admitted. Mr Kohl is also to preside over the signing of an agreement for Siemens, the German electronics group, to invest in a 1,000-job memory chip plant.

Rhythmic gymnastics

European championships, Oslo, Norway (to June 2).

FT Survey

German Banking and Finance: Uruguay (UK only).

Public holidays

Bangladesh, Fiji, Israel, Virgin Islands.

THURSDAY 30

Northern Ireland elections

Northern Ireland goes to the polls to pave the way for all-party talks on the future of the province. The contest is for 110 seats in the new Northern Ireland Forum – from which the parties will select teams for the June 10 negotiations. Unionists will wish to use the poll as evidence of support for continuing the union with the UK. With London and Dublin insisting on a reinstatement of the IRA ceasefire before Sinn Féin, the IRA's political wing, can take part in the talks, Sinn Féin is keen to maximise its vote in order to pressure the two governments to lift the ban.

Russia courts WTO

Another round of negotiations on Russia's drive to join the World Trade Organisation begins in Geneva (to May 31). It will be up to three years before Russia can become a member – a process not helped by trade spats between Russia and its trading partners. After being forced by the International Monetary Fund to rescind a plan to raise tariffs by 20 per cent this year, and after settling a dispute over US exports of frozen chicken, Russia declared new quotas on food imports. Protectionist noises from the Russian government may owe much to its election campaign. But they are not siding Russia's cause at the WTO.

Showjumping

Hickstead Nations Cup, England (to June 2).

Golf

US women's Open, South Pines, North Carolina (to June 2).

FT Surveys

Luxembourg; Croatia.

Public holidays

Croatia, Trinidad.

FRIDAY 31

Czech general election starts

Two days of voting begin in the third election in the Czech Republic since the Velvet Revolution in 1989. However, this is the first election since the country split with Slovakia in 1992 and is very much a referendum on four years of economic reform under the prime minister, Václav Klaus. Opinion polls suggest his outgoing, centre-right three-party government will be returned, although perhaps with a smaller majority. The main challenge are the Social Democrats, who are likely to become a much stronger opposition force to Mr Klaus's Civic Democratic Party.

Japan bid-rigging ruling

The Tokyo High Court rules in the case of nine large and medium-sized electrical companies accused of rigging bids in winning public projects from the Japan Sewage Works Agency.

FT Survey

North American Aerospace.

Public holidays

Malaysia, Singapore (Simex open), Thailand.

SATURDAY 1

Ariane 5 to be launched

Ariane 5, Europe's new entrant in the £1.9bn a year commercial satellite-launching market, is due to make its maiden flight. The 51.37-metre high rocket, the largest in western Europe, is to be launched from the Kourou space complex in French Guiana. It will be carrying four identical science satellites. The rocket is expected to take over from its predecessor – Ariane 4 – at around the turn of the century. At the time of writing, the second stage of the rocket was still being filled with fuel – with the launch date subject to review until this process is completed.

Cleaner petrol in California

A new air-quality petrol regime begins in the US state of California. Petrol stations will sell fuel which reduces emissions of smog-producing compounds from vehicles by about 15 per cent. The project is expected to reduce cancer risk from exposure to petrol by more than a third.

FT Survey

Investment Trust Guide (UK edition only).

Public holidays

Azerbaijan, Brunei, Kenya, Malaysia, Mongolia, Sri Lanka, Western Samoa.

SUNDAY 2

Boost to Dayton accord

The US and European powers meet the presidents of Serbia, Croatia and Bosnia in Geneva in an effort to push forward the stalled Dayton peace plan. Warren Christopher, the US secretary of state, and senior officials from Russia, Germany, France and Britain will address the failure of the Balkan leaders to arrest war criminals indicted by the International tribunal at The Hague. Among those indicted is the Bosnian Serb leader Radovan Karadzic. It will also be demanded that refugees be returned and freedom of movement in Bosnia and the workings of the fragile Moslem-Croat federation be guaranteed – all pillars of the Dayton agreement.

Run-off in St Petersburg

Anatoly Sobchak, the liberal mayor of St Petersburg, faces his deputy in a run-off election. The vote might foreshadow the anti-incumbent mood in Russia two weeks before the presidential elections. Vladimir Yakovlev, the deputy mayor, won a surprisingly high 21 per cent of the vote in the first round, against his superior's 29 per cent. Mr Sobchak did not expect a strong challenge. Both candidates back President Boris Yeltsin and democratic reform – true to the region's image as the vanguard of anti-communism in Russia.

Nastase serves to Romania

Ilie Nastase, the former tennis star, has the advantage in the campaign for the mayorship of Bucharest, the capital of Romania. Mr Nastase is standing for the governing Party of Social Democracy in Romania's second local election since the collapse of communism. However, although ahead in most opinion polls, Mr Nastase is not expected to win 50 per cent of the vote and is likely to be forced into a run-off.

Motor racing

After the calamities of the Monaco grand prix, in which only three cars finished, Britain's Damon Hill (Williams-Renault) will be hoping to extend his comfortable lead over his main rival, Germany's Michael Schumacher (Ferrari), for the world title. The action switches to the Spanish grand prix in Barcelona.

Compiled by Simon Strong.
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ECONOMIC DIARY

Other economic news

Monday: Adjustment of stock levels is thought to have depressed economic growth in Australia during the first quarter of the year.

Tuesday: The surge in the Conference Board's measure of US consumer confidence last month is expected to have partially reversed last month. US existing home sales are also thought to have fallen in April.

Wednesday: Inflation in Belgium is expected to have edged higher this month, while producer prices in Sweden are expected to be running at around last year's levels. Canadian producer prices are forecast to have picked up a little in April following March's decline.

Thursday: The Bundesbank council meets in Frankfurt. The UK's global trade deficit is thought to have narrowed in March, but the non-EU deficit is predicted to have widened in the following month. Finnish unemployment is expected to have declined in April.

Friday: US personal income growth is expected to have slowed in April, as is consumption growth. The Italian economy is thought to have started growing again in the first quarter of the year.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Tues	US	May consumer confidence	102.0	105.3
May 28	US	Apr existing home sales	-	4.21m
	US	Johnson Redbook w/e May 25	-	6.1%
	Japan	Mar coincident indx	40.0%	100.0%
	Japan	Mar leading differential indx	45.5%	80.0%
	Japan	Apr retail sales**	0.8%	2.8%
	Japan	May wh'sale price ind (2nd 10 days)	-	-0.1%
	France	Apr household consumption*†	-0.2%	-1.2%
Wed	Japan	Apr industrial production†	3.5%	-6.0%
May 29	Japan	Apr shipments†	-	-5.5%
	France	Mar trade balance†	FFr9.0bn	FFr10.2bn
	Italy	Mar hourly wages	4.2%	4.1%
	Italy	Apr hourly wages	4.2%	n/a
Thur	US	1st qtr GDP prelim	2.8%	2.8%
May 30	US	1st qtr GDP deflator prelim	2.5%	2.5%
	US	1st qtr after tax corp profit	2.0%	1.9%
	US	Initial claims w/e May 25	350,000	344,000
	US	State benefits w/e May 18	-	2.54m
	US	Apr new home sales	688,000	672,000
	US	M2 w/e May 20	-$0.5bn	-
	Japan	Apr Bank Jpn corp services prices*	-	0.1%
	Japan	Apr Bank Jpn corp services prices**	-	-1.0%
	UK	Mar global visible trade	-£1.0bn	-£1.5bn
	UK	Apr ex-EC visible trade	-£750m	-£571m
	Aus'lia	Apr current a/c	-A$1.8bn	-A$1.5bn
Fri	US	May Michigan sentiment final	-	89.9
May 31	US	May Chicago Ass purch'ng mngrs†	-	52.0%
	US	May agricultural prices	-	0.9%
	US	Apr personal income	0.4%	0.5%
	US	Apr pers consumption expenditure	0.1%	0.6%
	Japan	Apr unemployment rate	3.3%	3.1%
	Japan	Apr job offers-seekers ratio	0.67	0.67
	Japan	May consumer price indx (Tokyo)**	0.1%	0.3%
	Japan	May CPI ex-perishables (Tokyo)**	0.1%	0.0%
	Japan	Apr consumer price indx (nation)**	0.4%	0.1%
	Japan	Apr CPI ex-perishables (nation)**	0.2%	0.2%
	Japan	Apr construction orders**	-	-0.6%
	Japan	Apr housing starts**	8.3%	8.2%
	Japan	Apr construction starts**	-	5.3%
	France	1st qtr gross domestic prod prel***	0.6%	-0.4%
	UK	Apr final money data	-	n/a
	UK	Apr consumer credit	£725m	£700m
	Italy	1st qtr gross domestic prod prelim**	1.1%	2.3%
	Aus'lia	Apr retail trade	0.3%	1.6%
During the week...				
	Germany	Apr import prices*	0.3%	0.3%
	Germany	Apr import prices**	0.8%	0.4%
	Italy	Apr balance of payments	-	L1.4Tr
	Italy	Apr M2 (3m average)	2.7%	2.7%

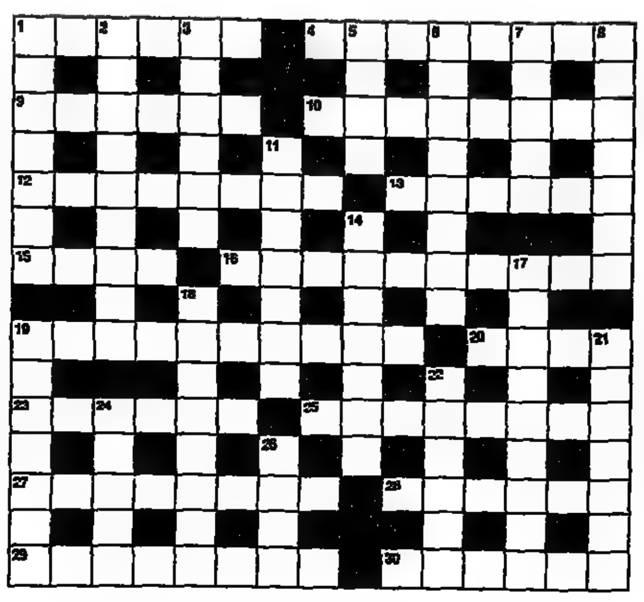
*month on month, **year on year, ***qtr on qtr, †seas adj. *Statistics, courtesy MMS International.*

ACROSS

1 Season well (6)
4 Abroad, went out with old hat (8)
9 Sportsmen may shoot them for fun (6)
10 Contrary chat (8)
12 Grace may arrive in disguise (8)
13 Such position in society is often symbolically expressed (6)
15 Few uttered an expression of surprise (4)
16 Staggers, due to ill-fitting satin shoes (10)
19 One who is deep in the letters of Freud and Eliot (10)
20 Some past Indian national currency (4)
23 Incorporate dome by reconstruction (6)
25 Put weight on, knocking back sweets (8)
27 One who follows a good lead? (8)
28 About to sit and take it easy (6)
29 Weather men caught in a flurry of sleet (8)
30 More than one rock group? (6)

DOWN

1 Drop out at university to get ready for the theatre (5,2)
2 Theatre company object to stage (9)
3 One who considers life barely worth living (6)
5 Is superior to a bad pun about love (4)
6 Perfectly fit model of pacifism to follow (8)
7 Game pie has nothing in it (5)
8 Suits oneself (7)
11 One's naughty spirit as an individual (7)
14 A virtue easily cultivated (7)
17 Leaves effortlessly (5,4)
18 Inaccurate shooting, but it can spread destruction (8)
19 Time the bowler started? More than time (7)
21 Speak to one's home (7)
22 Failing to join the enemy (6)
24 Cook beats a mixture (5)
26 A residence with no outstanding features (4)



PRIZE CROSSWORD
No.9,079 Set by DANTE

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday June 6, marked Crossword 9,079 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday June 10. Please allow 28 days for delivery of prizes.

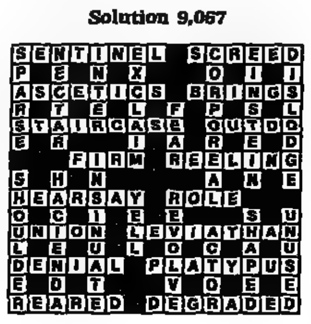
Name..........

Address..........

Winners 9,067

Mrs K. Wilson, Newton Ferrers, Devon
P.E. Carter, Oldham, Lancashire
Amy Hunter, Montpelier, Bristol
Mrs R. Moir, Bracknell, Berks
Vera O'Sullivan, Wickham, Hants
D. Szczublewski, Cheshunt, Herts

Solution 9,067



JOTTER PAD

هكذا من الأصل

The village of Machico: the island's English links are very strong — Picture: Mike Arron

■ **BLANDY BROTHERS** by David White

Part of the landscape

In Madeira since 1811, the Blandys are its most influential British family

The Blandy family can show you their money. In 19th-century Madeira they had it made, literally. Because of a shortage of coinage, some of the island's British-owned wine shippers took to paying local growers in brass tokens, which were accepted by shopkeepers as a kind of parallel currency.

The Madeira Wine Company has a pile of them on display, denominated in *reis*, the Portuguese money of the time. Instead of a monarch's head or national symbol stands, the name of Blandy appears in prominent letters.

Today, on the threshold of the euro era, Blandy Brothers is still the same private family company, owned and run by Blandys, even though the focus of its interests has shifted.

The Blandys are not the oldest of the British families which have made their mark on Madeira, by building up the wine export business and other island activities from embroidery to brewing and tobacco. But they are are the biggest.

Like the others – but unlike their counterparts in the sherry business in southern Spain, who have become Spanish over the years – they have held on to their English identity.

Blandy Brothers was established in Madeira in 1811, but is it a foreign company or a local company? "We consider ourselves to be British, resident in Madeira," says Mr Richard Blandy, the chairman.

However, although the company has interests in the UK and an affiliate in the Canary Islands run by "Spanish cousins", he says the main thrust of the business is likely to remain in Madeira. "We have very strong links with this island, and it is our intention to continue living here."

His is the sixth generation of Blandys to run the business, which at one time included banking but is now based largely on property, tourism and services. Mr Blandy is reluctant to discuss financial figures ("We don't publish anything," he says) beyond the overall turnover of the group, which he puts at Es8.5bn, including joint-venture activities. It employs just over 1,000. Its fully-owned interests include a travel agency, a shipping agency and a Lloyd's insurance agency. It is the proprietor of Madeira's biggest newspaper, *Diário de Notícias*, with a circulation of 15,500, competing against another daily belonging to the combined forces of the regional government and the diocese.

The newspaper rivalry puts the family on slightly tricky ground with the regional president, Mr Alberto João Jardim. Although he and the Blandys are respectful about each other, Mr Jardim regards the *Diário de Notícias* as being hostile to his centre-right Social Democratic Party (PSD) and an ally of his Socialist political opponents.

The group's flagship has been the tradition-laden Reid's Hotel, opened in 1891 and part of the Blandy empire since 1936, the most famous single building in this part of the Atlantic. Mr Blandy says that in the early years running a hotel on an island without an airport was "an act of faith". In the last 20 years, Reid's had proved an extraordinary success. Nonetheless, it emerged this month that negotiations were under way to sell the establishment to the Sea Containers group, whose Orient-Express Hotels subsidiary includes other famous names such as the Cipriani in Venice.

"We're moving away from taking the view that Reid's is in any way a trophy business," says Mr Blandy. He sets store by a readiness to change, which he sees as the key to the group's ability to survive.

The Blandys keep a stake, although a minority one, in the Madeira wine business where they made their name and where their name still features as a label. The story has it that the original John Blandy of Berkshire came with the British garrison stationed in Madeira during the Napoleonic wars, as a young quartermaster – a good post for eyeing trading opportunities – before returning as a civilian and setting up in business. In the late 19th century the Blandys and the Leacocks, another English family whose Madeira roots go back to 1741, rescued wine production after it was ravaged by successive attacks of mildew and phylloxera.

During the First World War they and other shippers pooled their wine assets into the Madeira Wine Company. The Blandys later bought the Leacocks out, but in 1989 joined forces with the Symington group from Oporto, one of the powers in port wine, which now holds majority control. Mr Blandy, whose company still has over 40 per cent, says the partnership has brought new expertise in production and especially marketing.

In other sectors, too, Blandy Brothers is increasingly involved in joint ventures. These include a shareholding of just over 25 per cent in the island's only flour and pasta producer, now based in the industrial free zone, and a similar stake in the Cliff Bay Hotel, a five-star establishment opened 18 months ago.

The company is looking into new sectors, but Mr Blandy is not saying what. "This is a small economy," he explains. He emphasises that the aim is to take partners in operating activities but not at group holding level. Family policy is to avoid a wide dispersion of shares, even if this imposes a constraint. "Our capital is always going to be limited," says Mr Blandy.

There are, he says, about 20 shareholders. But the family has worked on the principle that a majority should be "held essentially by the people who work in the group in one capacity or another". He adds: "There is no automatic right of entry. You've got to prove yourself."

Mr Blandy, 49, learnt accountancy in Edinburgh, spent two years in Lisbon as a management trainee at the Blandy office, and another two in the City in merchant banking and insurance before joining the company in Madeira. His younger brother, Mr Michael Blandy, is chief executive. His cousin, Mr Adam Blandy, who preceded him as chairman, now runs his own property interests and the Palheiro golf club – built on a family estate – but continues as a non-executive director.

"We've always tried to keep the best of Anglo-Saxon business practices," says Mr Richard Blandy.

He is proud of the "discipline" which has enabled the family to deal with the delicate question of who inherits the business. "We've been able to handle the two big issues in any family firm – the willingness to change as economic circumstances change and, in second place, the management and succession," he says. Is the next generation already lined up? "It's an area we're going to be moving into," says Mr Blandy.

■ **MADEIRA WINE:** by David White

An after-dinner curiosity

Most ends up in French kitchens, but Britons still pass it round with the port

In the best traditions of Britain's Royal Navy, the decanter of madeira is still passed around after dinner with the port.

The archipelago's most famous product continues to enjoy a following in the UK, a rather more fickle one in the US, and a growing Japanese market. More muscle has been put recently into marketing it in its different styles, to be drunk as either an apéritif or a digestif. But the cruel reality is that most of it is shipped in bulk and the biggest clients, the French, sell it as a kitchen wine or an industrial ingredient.

Compared with port or sherry, madeira has a relatively tiny production, with annual exports in bottles bringing in just over Es2bn ($13m) – not dissimilar, as one Madeira businessman said, to the turnover of a top 200-room hotel – and bulk exports only a third of that.

Efforts have concentrated on promoting the higher-value wines made from traditional grape varieties. But the scope is much more limited than in the port wine business of Portugal's Douro region, which is set this summer to stop exporting in bulk altogether and to sell its production only in bottles.

> Wine is one of the three main agricultural products in Madeira's history, and looks like being the survivor

In Madeira this is not considered an option. For one thing, bottles have to be shipped out from continental Europe and the bottled wine then shipped back. For another the customers of bulk wine want it that way. And, whereas bulk shipments make up less than a quarter of port exports, here they account for more than half.

For all the elaborate preparation that goes into converting Madeira's high acid-content wines into a distinctive fortified product, madeira shipped in bulk to France last year fetched an average of just Es283 per litre, barely a fifth of the average for the bottled version.

The business is concentrated in the hands of a half-dozen exporting companies, compared with more than 50 port wine shippers. There was an exodus of British shippers when vines were devastated by mildew in the mid-19th century.

After Europe's phylloxera epidemic completed the damage later in the century, the Blandy and Leacock families set about rebuilding the business by grafting on to imported American root stocks. The pooling of their interests, joined by those of the Miles family and later Cossart Gordon, formed what is now the dominant producer, Madeira Wine Company.

This is now controlled by the Symington group, the biggest remaining private port concern, which has added the madeira brands to famous port names including Dow, Warre and Graham.

According to Mr Jacques Faro da Silva, Madeira Wine Company's managing director, it controls between 50 and 55 per cent of the bottled market and 30-32 per cent of bulk shipments. "Our challenge is really to be able to expand more and more the bottled business," he says.

Through the link with the Symingtons, who took over seven years ago, the company has benefited from access to a much more powerful distribution network and some improvements in technology.

However, the basic process of wine-making, which evolved out of a combination of necessity and accident, has not changed. The vineyards of Madeira (there are also some on the smaller island of Porto Santo) are a labour-intensive business, mostly on tiny plots carved out of steep slopes and unsuitable for any kind of mechanisation. There are some 10,000 growers.

Production of wines other than fortified madeira is of dubious viability, although Madeira Wine Company has produced some decent rosé and white table wine and experimented with a red. So-called "direct producers", especially in the north, grow the American-type vines rather than the authorised grafted varieties and make wine for domestic consumption, but are being discouraged. Three years ago this type accounted for some 47 per cent of the total harvest of grapes for wine production, but has fallen sharply.

Quality is controlled by the Madeira Wine Institute, an official body belonging to the regional government, with 45 employees. In the past the wine "lodges" would take pressed wine from the growers but now only buy grapes. Wine alcohol is added at different stages of the fermentation process, according to the type of wine being produced.

What is special about the production of madeira is, in effect, a gradual cooking process. This can be done in the "noble" fashion by storing it in warm attics for four or five years, or by putting it in tanks with heating-coils, where the job can be done in three or four months. The minimum set for any wine to reach maturity is 18 months.

Wine is one of the three main agricultural products to have marked Madeira's history, and looks like being the survivor. There are only a couple of sugar-mills left to commemorate the original boom crop, sugar-cane. In the 1970s many vines were pulled up on the lower slopes to make way for bananas, but now the bananas are again making way for replanted vines.

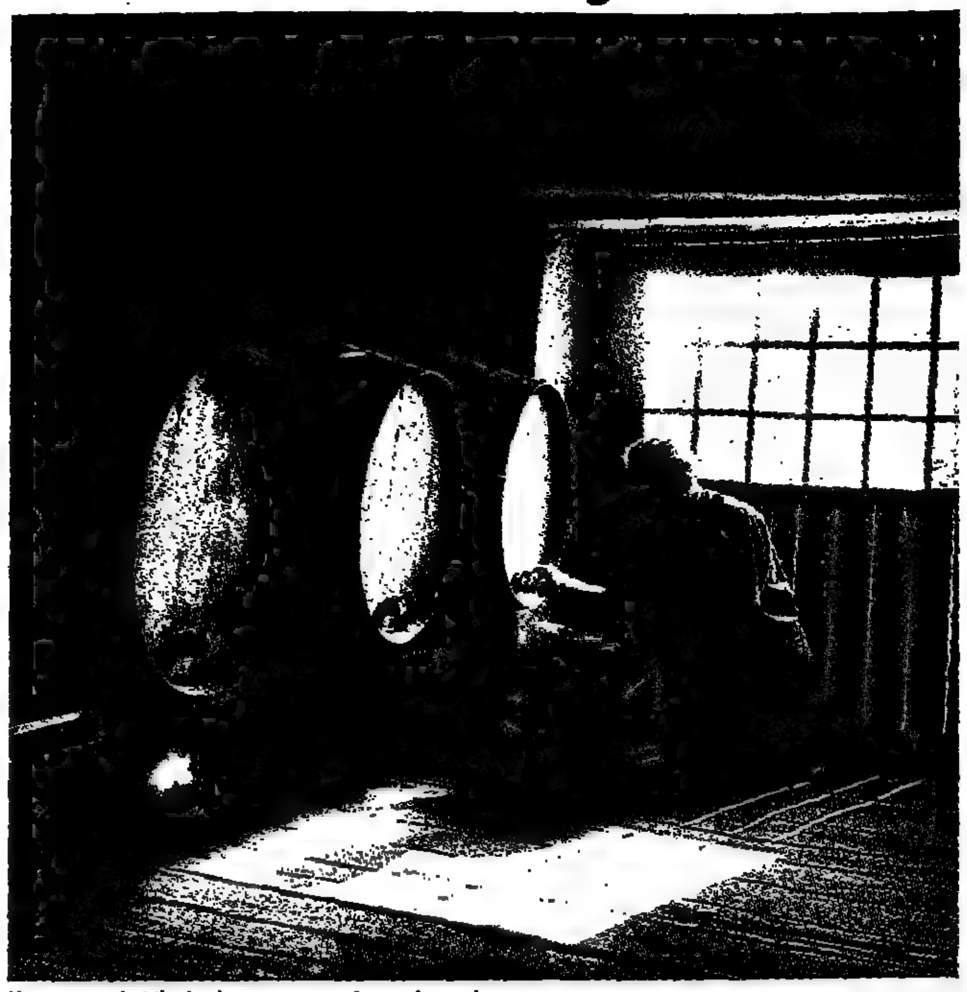
Recent years have seen efforts to rebuild production of traditional madeira grape varieties, overwhelmingly displaced in the grafting process by a resilient variety called Tinta Negra Mole. Most madeira wine production comes from this grape although it is not one of the distinctive types associated with the finer product. These are Sercial, the dryest, Verdelho, which gives a medium-dry wine, the full-bodied Bual and the rich Malvasia or Malmsey, the source of the most characteristic of all madeiras.

This diversity results in what may be a somewhat baffling choice for the diffident consumer, and the question has been raised of whether a simplified range might not be more successful.

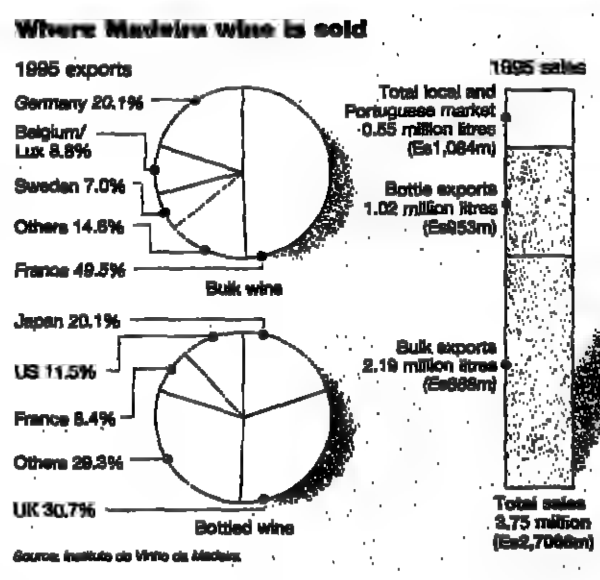
Not only are there four different traditional styles of madeira, with different names, but also different ages – three, five, 10 or 15 years, or vintage, which means at least 20 years in the cask and two in the bottle.

"Madeira wine is a very difficult thing to sell," Mr Faro da Silva says. The largest number of bottles of madeira – more than exports to the UK and much more than sales in mainland Portugal – are bought by visitors to the islands.

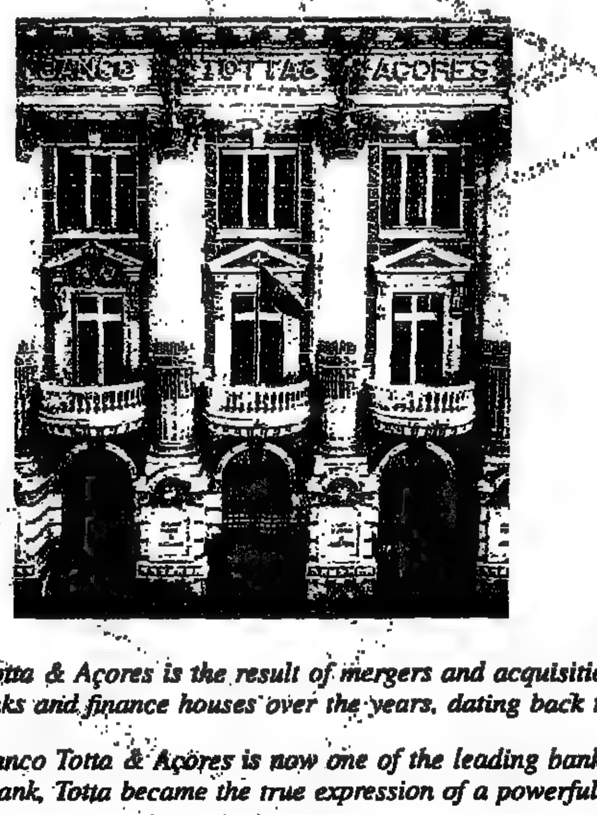
Tourists mill unsteadily around Madeira Wine Company's São Francisco wine lodges in downtown Funchal, tasting the wine and viewing the displays of ancient bottles. "Madeira is the number one market for bottled madeira wine," says Mr Faro da Silva, "and of course it is not for Madeirans."



New grapes, but the basic process remains unchanged



Source: Instituto do Vinho da Madeira



■ **THE INTERNATIONAL BUSINESS CENTRE:** by Peter Wise

Haven of friendliness

Almost 2,000 financiers and manufacturers have registered at the centre since 1989

Funchal docks: invisible exports grow faster — Picture: Mike Arron

Two Dutch businessmen launched a line of knitwear last January under the brand name "Quality of Life".

Madeira itself inspired the label, says Mr Bart de Roode, who co-founded the garment business in the industrial free trade zone of Madeira's International Business Centre (IBC) three years ago.

"Quality of life is what you find here. I know of few places in Europe that score as highly in terms of the friendliness of the people, the way of life, the climate and the environment."

An attractive lifestyle is an important element in the success of the IBC, where almost 2,000 companies have invested, mainly in international services, since the centre began operating in 1989 under special tax concessions granted by the European Commission to stimulate Madeira's economic development.

Businessmen from northern Europe respond warmly to a location where they rarely have to contend with traffic jams, crime, strikes, or pollution and will never have to scrape frost from their windscreens before driving to work.

But they would not be in Madeira if it was not also attractive in terms of tax levels, costs and investment incentives that compare favourably with competing European centres such as Dublin, Luxembourg and the Channel Islands.

Mr de Roode and his partner, Mr Hugo Hasselaar, drew on their experience in cross-border investment and tax planning for multinational companies including Asea Brown Boveri, the Swedish-Swiss engineering group, before deciding on Madeira as a location for their own garment-making venture in 1993. "Our expectations have been more than fulfilled," says Mr de Roode.

The two men began by setting up a company, Florina, which now produces 60,000 knitwear garments a year for export to the Netherlands. It employs 26 local people, mainly women, working 24 hours a day in three shifts and is based at Madeira's industrial free-trade zone, a 118-hectare site with its own port 8km from the airport. Container port facilities are available in Funchal, 30km to the west.

They used investment incentives to cover most of the cost of purchasing four knitting machines and later decided to launch a second company, MSCT. For this, they opted for a subsidy covering 95 per cent of the cost of seven months' training for its 50 employees. This included the trainees' wages as well as the salaries, travel and accommodation costs for instructors and the cost of training materials.

The Madeira Development Company, the private-sector enterprise that runs the IBC, later introduced MSCT to Calida, a Swiss multinational group. This led to an important long-term contract for MSCT to produce under garments for Calida that is likely to raise MSCT's workforce to 60 or 70 by the end of this year.

The quality of the workforce is among Madeira's most important attractions for Mr de Roode. "More than tax levels and investment incentives, people are the main element in the success of any manufacturing location," he says. "We couldn't have hoped for more willing or effective co-operation from everybody on the island."

He adds: "We often have to speed up output to meet delivery dates, which are of vital importance in the fashion industry. Our employees have shown a ready understanding of this and are prepared to work extremely hard to comply with our schedules. They are willing to contribute their own ideas and take on responsibilities."

If the two men could have asked for more co-operation it would have been from the banks. As relatively small foreign investors in Madeira, they found it difficult to arrange credit either from local banks, who knew little about them, or Dutch banks, who knew little about Madeira.

But there were financial compensations. In addition to traditional offshore operations, financial institutions are now able to incorporate new banks and insurance companies in Madeira, providing them with the benefits of subsidiaries exempt from all taxes and a passport to operate anywhere in the European Union.

The new benefit adds considerably to Madeira's combination of fiscal privileges and full EU membership. "This measure enables a bank or insurance company to be set up in Madeira in accordance with EU legislation that provides the automatic right to open branches or representative offices in any other member state," says Francisco Costa, chief executive of the IBC.

"From the operational point of view, it is exactly the same as incorporating a new financial institution anywhere else in Europe," he says. "But banks that set up their headquarters in Madeira will also benefit from far better tax conditions."

A number of international financial groups are to be the first to take advantage of the new regulation by setting up full subsidiaries in Madeira shortly. Previously, banks and insurance companies could only open branches of existing institutions in the IBC.

Madeira's offshore financial centre, where 35 institutions are already operating, is one of the four operational areas of the IBC, which, in addition to the industrial free-trade zone, also offers an international services centre and an international shipping register, all benefiting from tax, duty and exchange-control exemptions.

Companies based in Madeira enjoy total exemption from taxes on profits and capital gains until the end of 2011. Investors also benefit from total exchange freedom, including free repatriation of capital and profits, free transfers of funds used in commercial operations and complete freedom to import capital.

Madeira believes its benefits compare favourably with other low-tax centres in Europe, such as the different services provided in Ireland, Luxembourg, the Netherlands and the Isle of Man. "Few other jurisdictions can supply the range of activities combined with full European integration, institutional reliability and tax benefits that Madeira offers," says Mr David Fiske de Gouveia, managing director of Madeira Management Companhia Limitada, one of the IBC's biggest providers of management services.

While other fiscally privileged centres specialise in specific categories of investment such as holding companies or mutual funds, Madeira aims to offer comprehensive and well-integrated facilities covering all areas of industry, services, banking and shipping. "We have everything here and it is all an integral part of the EU," says Mr Costa.

Benefits of the free trade zone

Companies setting up in Madeira's industrial free trade zone can draw aid from Portugal's Industrial Incentives Programme (PEDIP II), part of an Es4,450bn ($27.5bn) EU-financed Regional Development Plan for 1994-99. They are also entitled to exemption from:

- corporate tax and municipal property tax on income from operations in the zone until the year 2011;
- transfer tax and gift and inheritance tax on the acquisition of real estate;
- capital gains tax on the sale of fixed assets;
- rates and local taxes;
- withholding tax on loans from foreign banks and on bonds issued by the companies, provided the funds are used exclusively for investment;
- withholding tax on royalties and other payments for know-how transfers.

Investors in the capital of companies set up in the zone also benefit from:

- complete exemption from withholding and income tax on dividends, interest on shareholders' loans or any other type of income from zone-based companies;
- exemption from transfer tax and gift and inheritance tax for all transfers of shares or other forms of participation in the capital of companies operating exclusively in the zone.

Other advantages for manufacturers include:

- total exemption from value-added tax (VAT) and customs duties on the importation of goods to be stored and/or worked on in the zone, and on equipment to be used by companies operating in the zone;
- exemption from export quotas;
- incentives for energy-efficient manufacturing processes;
- readily available factory and warehouse facilities;
- labour incentives that cover most staff training costs.

INTERVIEW Francisco Costa, founder and head of the IBC

Rules pay dividends

Mr Francisco Costa, the inspiration, founder and chief executive of Madeira's International Business Centre (IBC), is a tenacious fighter on behalf of a project whose reputation is largely based on his overriding concern for integrity.

"Our whole emphasis is on providing a well-regulated environment for investors who want to set up sound, solid, respectable operations that are well regarded both within the European Union and world-wide," he says.

"Madeira has invested strongly in sound regulation and respectability," says Mr Carlos Loureiro, a Lisbon-based partner with international tax consultants Arthur Andersen. "Francisco Costa opted from the beginning for a strategy of caution, prudence and selectivity in developing the IBC. This is now paying dividends."

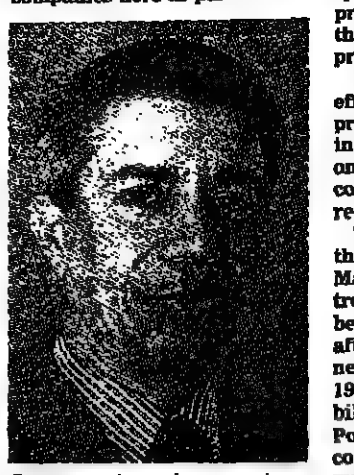
From the outset, Mr Costa identified one of Madeira's most important assets as membership of the European Union, providing investors in the IBC with both regulatory guarantees and integration with the European market, including free circulation of goods and services and right of establishment.

Companies setting up in Madeira, an integral part of Portugal, are governed by the same corporate law and central bank regulations as their counterparts on the mainland and consequently enjoy the same guarantees of legal credibility and economic soundness.

This also makes administrative procedures more costly and time-consuming than in more deregulated centres. But Mr Costa is not interested in investors attracted by that kind of facility. Part of his efforts have been to dispel any conception of Madeira as a tax haven. It is not even strictly an offshore zone, he says, but a business centre with special tax privileges.

Companies in the IBC operate within an EU-wide regulatory and reporting framework. "It is a base for legitimate international tax planning that can stand up to scrutiny," says one foreign tax consultant. "Companies that don't like disclosing their accounts will not be attracted there."

"The advantages of soundness and respectability are reflected in the type of companies that Madeira attracts," says Mr David Fiske de Gouveia, managing director of Madeira Management Companhia Limitada, which provides management services. "Groups that are international household names are setting up companies here as part of their world-wide networks. The IBC enables them to enhance their overall tax-planning on a cost-effective basis."



Costa: no welcome for companies that conceal their accounts

Mr Costa conceived the idea of the IBC in the mid 1970s with a group of Madeiran businessmen who saw such a centre as a new opportunity for the development of a remote region of Europe with few natural resources and limited scope for industry but which has an attractive environment and a long tradition of excellence in services.

The first draft of legislation for the centre was drawn up in 1980. Portugal joined what is now the EU in 1986 and the European Commission and Portugal's central government agreed to grant Madeira tax and other privileges as means of fostering the island's development. After a complex process of negotiation and legislative improvements, the IBC began licensing companies in 1989. Almost 2,000 companies are now registered.

Mr Dionísio Pestana, the son of a Madeiran emigrant to South Africa, who now owns one of Portugal's biggest hotel chains, is the main investor in the Madeira Development Company, which runs the IBC. The regional government has a 25 per cent holding; the remainder is privately owned. The company, which is spending Es250m ($1.6m) on promotion and marketing this year, reported a net profit of Es290m in 1995.

Mr Costa is notable for his efforts to improve and promote the IBC. These involve extensive travelling on marketing tours and a constant struggle for better regulations and conditions.

The most recent setback to the IBC was the exclusion of Madeira from a bilateral tax treaty recently signed between Portugal and the US after years of tough negotiations. In January 1994, Denmark severed its bilateral tax agreement with Portugal, partly because it considered Danish investors were using Madeira to abuse Danish tax law.

"The exclusion of Madeira from any of Portugal's bilateral tax treaties is totally incoherent," says Mr Costa. "It doesn't make sense for companies in Madeira to be excluded from these agreements when they abide by all the other rules and obligations that apply to companies based anywhere else in Portugal. We are working hard to ensure that this issue is reconsidered."

Mr Costa remains true to his aim of using the IBC to advance Madeira's development. He can point to the creation of 1,000 jobs in the industrial free zone and almost as many in the international services centre. For every one job created directly in the IBC, two more are created indirectly in Madeira, he reckons. The Madeira Development Company's staff of 24 are all recruited in Madeira.

Peter Wise

PROFILE Regional President Alberto João Jardim

Two decades at the helm

Mr Alberto João Jardim, president of Madeira's regional government, cut a dashing figure at the island's carnival celebrations last February.

Dressed in a gold lamé dress and a blonde wig, his five o'clock shadow faintly visible beneath heavy makeup, he swept along with the parade, blowing kisses and exchanging racy quips with the crowd.

Mr Jardim, 53, one of the longest-serving elected leaders in Europe, is the antithesis of the reserve, decorum and old-world elegance that most outsiders have associated with Madeira since the British aristocracy began spending its winters on the island in the 18th century.

A convivial, good humoured man who can be counted on to speak his mind at every opportunity, he has come to symbolise the passing of the old order in Madeira, dominated by powerful families, mostly British, and the emergence of a more open society less rigidly stratified into classes.

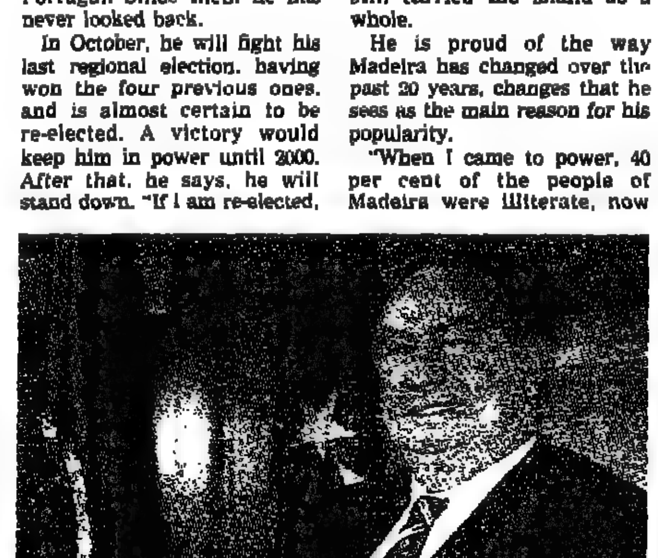
"The old Madeira was a disaster," he says. "It was a colonial situation. Essentially, the problem was the difference between classes. I am not a Marxist. I am not a socialist. But there were very unjust class differences. Madeira was a very formal, hierarchical society."

Radical change began in 1974, when young army officers on the mainland overthrew Portugal's authoritarian regime and a modern democracy was gradually established. Mr Jardim was then a secondary school teacher who had taken 13 years to obtain a law degree – an extended course of study due, Madeirans say, to his fondness for late-night carousing.

He first came to prominence by contributing articles to the *Jornal de Madeira*, a daily newspaper run by the Roman Catholic Church, in which he took a firm stand against a left-wing push for power in Portugal during what has become known as the "long, hot summer" of 1975.

He joined the newly-formed centre-right Social Democrats (PSD) and went on to be elected head of the regional government in 1978, after the island had been made an autonomous region of Portugal. Since then, he has never looked back.

In October, he will fight his last regional election, having won the four previous ones, and is almost certain to be re-elected. A victory would keep him in power until 2000. After that, he says, he will stand down. "If I am re-elected, I want to prepare a successor to head the PSD in Madeira," he says.



Alberto João Jardim: presiding over the passing of the old order

Even his sternest critics acknowledge that he is a forceful voice for Madeira whose determination has been singularly successful in winning support for the region from the European Union and the central government in Lisbon.

Most of the large inflow of funds has been to the public sector, improving living standards, particularly for the rural poor, by providing new schools, health clinics, roads and other infrastructures. The boom in public works and social services has also created new jobs that are better paid and less gruelling than working the land.

It is in the rural regions that Mr Jardim's strongest support lies. For the first time, the PSD in Madeira lost to the opposition Socialists in Funchal, the island capital, in Portugal's general election last October. But Mr Jardim's party still carried the island as a whole.

He is proud of the way Madeira has changed over the past 20 years, changes that he sees as the main reason for his popularity.

"When I came to power, 40 per cent of the people of Madeira were illiterate, now the rate is 10 per cent. There is no comparison.

"Our GDP per capita was 40 per cent of that on the mainland, now it is 70 per cent. Unemployment is 5 per cent and we have virtually brought emigration to a halt."

Madeira once had only one secondary school – in Funchal. Now, every town has one. When Mr Jardim took his degree, he was one of only 40 university students from Madeira.

Now 1,000 Madeiran students attend university, two-thirds of them with financial support from the regional government.

"I believe education is the best means of development. Democracy and regional autonomy are better defended if we have more educated people," he says.

"They may not have the same ideas as I have. But I am not afraid of the generational conflict. Our young people must be free. They have to find new challenges and new answers for Madeira."

He now speaks respectfully of the old British families, some of whose present-day members, he notes, are entrepreneurs competing on equal terms with a few big groups run by young Madeirans from emigrant families. "There are some rivalries between the new and old groups, but in a market economy I think that is good for the region."

He accuses some of the old families of aligning with the Socialists against the PSD and resents what he sees as persistent opposition from the *Diário de Notícias*, Madeira's main daily newspaper, which is owned by the Blandy Brothers group. But, he adds: "I have never refused the Blandys or any other group all the support that the government can give. I do not confuse politics with the economic interests of Madeira."

Peter Wise

THIS WEEK

Eternal City seeks silver for Jubilee

DATELINE

Rome: the city is about to get its biggest infrastructural overhaul since Mussolini imposed his neo-brutalist town planning, writes Robert Graham

A soft blue line, a car's width from the pavement, has started to appear on some of Rome's streets. The purpose of this mysterious demarcation has become obvious all too quickly with the installation of an aggressive looking machine dispensing parking tickets. A system of paid-for parking has been introduced at L2,000 (84p) an hour between 7am and 11pm every day except holidays.

Rome's municipal authorities had the sense to tread softly, allowing a trial period in which polite warnings of fines, on red paper, are tucked under wipers. But the effect has been dramatic. Instead of commuter cars crowding out residents, the streets are empty *except* for residents, who can still park free. No one wants to buy a ticket.

Educating Romans to pay for leaving a car on the road is a highly unpopular idea. Traditionally, parking has been free, the prize for the skill and enterprise essential to find or invent a space. Alternatively, parking is controlled by unofficial attendants (usually wearing officious caps) who will obligingly keep your key, guard your car and move it when necessary. These men earn considerable sums. Motorists willingly pay them.

The more "civilised" cities of northern Italy long ago introduced paid-for street parking. The absence in Rome of such a system has always been justified by a tacit pact between the authorities on the Campidoglio (the seat of city hall) and Romans to the effect that so long as public transport remained poor, traffic chaotic, and parking space limited, motorists would not be penalised.

The changes are now being rung by Francesco Rutelli, elected from the ranks of the Greens as Rome's mayor in 1993 at the head of a centre-left ruling council. Rutelli believes he is in a position to promise (though not yet offer) better services, partly because Rome is about to get its biggest infrastructural overhaul since Mussolini imposed his neo-brutalist town planning.

The occasion is the Jubilee year 2,000, embracing two inter-locking celebrations. One is sponsored by the Vatican: the 28th Jubilee year since the concept was introduced in 1300. The other is the Eternal City's own celebration of the onset of the 21st century.

The Holy See expects to welcome 20m pilgrims in four years' time though some believe Rome might host almost double that number. Rome and the Lazio region will need huge improvements in infrastructure: a challenge with which Rutelli and his team have been struggling for two years.

A list of priority projects has been prepared by the Campidoglio with the Vatican: a complicated affair as it involved a sovereign state. These projects include a metro line from the Colosseum to St Peter's, restoration of ecclesiastical monuments *and building of new* churches, and hostel accommodation for pilgrims. Two key issues are unresolved: funding and management.

Rome has been looking for substantial state funding. The 68 main projects carry a public price tag of L3,400bn, but the previous Dini government felt it lacked the political authority to ear-mark such a sum to be spent mainly by a centre-left municipal administration. Political sensitivities were aggravated by moves to control the management of the Jubilee by setting up a special agency.

Rome still suffers the consequences of the waste entailed by Italia 90: the World Cup football finals in 1990. The government shelled out money for a spurious tram line, eight unnecessary metro stations, plus a new airport train terminal, abandoned because *of its* poor site.

However, the advent of the new Prodi government has allowed a fresh start. In fact,the Jubilee funding and management issues were unblocked last Friday in the first week of the new administration. The state will stump up L3,400bn, though the money will not be administered via a special junior minister for the Jubilee as requested by Rutelli. The mayor's request was discarded as the various partners in the centre-left Olive Tree coalition could not agree on who should fill such a post. Each party wanted its own candidate to control such immense patronage.

The management compromise takes the form of an inter-ministerial commission with overall responsibility under premier Romano Prodi. The government will buy a 51 per cent stake in the agency set up by Rutelli to prepare the Jubilee's technical side. The government will be represented by *the ministries of culture, environment*, public works and transport.

Already Antonio Di Pietro, the former anti-corruption Milan magistrate recruited this month into the public works portfolio, has shown his mettle. Within hours of the cabinet approving the Jubilee funding, he announced the appointment of a special Jubilee official and almost succeeded in controlling everything.

Di Pietro's presence should guarantee that public money will not be squandered or siphoned off by corruption. But even this high-profile political neophyte may find the public works timetable beyond his control. With only 1,300 days left, work on the important projects may start too late to be ready on time.

PEOPLE

Ross Goobey attacks "Catch 22"

High hopes are pinned on the new chairman of the PFI, reports **Andrew Adonis**

Since its launch three years ago, the UK government's vaunted Private Finance Initiative has been caught in almost a Catch 22 situation.

The PFI's objective is to get the private sector to play a central role in financing and managing public sector investment. But to negotiate this new relationship, contract by contract, Whitehall's politicians and civil servants need those very private sector skills and attitudes which they are seeking to acquire as a *result* of the PFI.

The Treasury's *main* escape strategy has been to recruit teams of private sector executives to act as spark-plugs across Whitehall. This has been done under the aegis of the Private Finance Panel, a Whitehall agency funded by the Treasury but working at arm's length.

The appointment this week of Alastair Ross Goobey, prominent City investment manager, as the panel's new chairman is the latest attempt to give impetus to the panel's work.

For Ross Goobey, chief executive of Hermes Investment, which manages Britain's post and telecoms pension funds, it is a third stint as a semi-detached Treasury troubleshooter. *A former* special advisor to Lord Lawson in the run-up to the 1987 general election, and to Norman Lamont in the year before the *1992 election, Ross Goobey is accus*tomed to having the run of the Treasury to help chancellors out of difficulties.

Another election approaches, but this time Ross Goobey insists his efforts have nothing to do with boosting Tory fortunes. "The PFI is not a partisan policy," he says. "Both parties are committed to the principle of improving public services by greater use of contracting. The challenge now is to accelerate the PFI through its delivery phase."

In some areas the delivery phase has arrived. Ross Goobey cites transport, health, prisons and information technology as sectors now producing a steady stream of contracts. "Now that we have got satisfactory templates in these areas, the job is to get a steady stream of *contracts signed and started.*"

Alastair Ross Goobey: third stint as a semi-detached Treasury troubleshooter

He notes the irony that some of the areas causing most PFI problems, such as the provision of new Whitehall *office* accommodation, feature long established public-private collaboration. "The critical aspect of PFI is the transfer of new risks to the private sector," he says. "In the case of property, the industry is having to adapt to the fact that old-style sale and leaseback deals are simply not on offer.

"Property developers are used to the old days of the Property Services Agency [the Whitehall unit formerly responsible for office accommodation], which was the developer's friend. The public and the private sectors must both adapt to new conditions."

In an area such as prisons, where *there were no private operators* prior to PFI, he believes it has proved easier to secure innovative contracts offering improved value.

Prisons highlight the political friction over PFI. Jack Straw, the shadow home secretary, has condemned privately managed prisons as "morally repugnant". And there is controversy about the extent of contracting within the National Health Service.

Ross Goobey neatly sidesteps these brambles. "It is up to the politicians to decide which services are provided by contract and which directly by the public sector," he says. "We will work to their brief."

Whitehall is only one of Ross Goobey's concerns. Equally important to him are potential contractors and financiers, many of whom *are extremely wary of the PFI.*

Contractors complain loudly about the expense and delay involved in negotiating PFI contracts. *Bovis, the construction com*pany, joined the chorus last week saying it would not tender for further PFI road projects.

Ross Goobey has nothing new to offer them except a sympathetic ear and assurances that recent changes to procurement guidelines "will improve the bidding process".

The funding aspects of PFI are his forte. Hermes, the fund he manages, is a principal backer of Innisfree, the first equity fund dedicated to investing in PFI projects.

He says Innisfree has raised more than £50m to commit to the PFI and is examining suitable investment opportunities. "The PFI has so far *been dominated by project finance* bankers, with projects largely debt financed. People will want to see whether Innisfree works, but if it does – *and we are optimistic – then* I would expect to see a number of me-too equity funds before long."

Is there a conflict of interest between Ross Goobey's City and Treasury roles? He stresses that as non-executive chairman he will not be party to any individual contract negotiations.

However, his hands-on knowledge of PFI is why he was recruited in the first place. "Ministers believe it is better to have people on the private finance panel who *are* involved in some way than people who are totally unfamiliar." Otherwise, he implies, there may truly be no escape from the PFI's Catch 22.

NAMES IN THE NEWS

Lord Fixit champions horseracing

Lord Wakeham – chairman of *Britain's Press Complaints* Commission, debt mediator to Eurotunnel and chief frontman for the troubled sport of British horseracing, among other things – has been a prominent Mr Fixit for more than a decade, write Tim Burt and Michael Thompson-Noël in London.

He first earned his Fixit tag in politics. At Westminster he was the Conservatives' chief whip, helping support Margaret Thatcher's leadership by pressing Tory MPs to toe the line. He also served as energy secretary, leader of the House of Lords and lord privy seal. Once he stood back from politics, his talents won a host of business offers.

Last week Wakeham told analysts following Vosper Thornycroft, the warship builder where he is chairman, that his former political contacts were proving most helpful. *Observers have renamed him Lord* Fixit.

A former accountant, Wakeham now has about 10 directorships – a *fraction of the 62 he juggled before* entering politics in 1974. He declines to rank them, saying only that he manages to divide his time evenly.

His resolve has won admirers among those who expected him to withdraw from public life after the IRA bomb in Brighton in 1984 which killed his first wife. Wakeham rarely talks about that time, but has said: "It has rounded my character a bit. I am not so argumentative as I was. It has helped me become a better fixer."

One of his lesser-known missions is his role as chief spokesman for British horseracing. On June 7 he becomes chairman of the British Horseracing Board. The post is not at all cushy, for it will be Wakeham's task to peddle the interests of this large and complex sport in the corridors of power.

There are still plenty of racehorses, racetracks and racegoers. And an estimated 100,000 people still earn a living from the betting and racing businesses, which generate large sums in betting duty (more than £350m annually).

But the sport is looking jaded. Betting turnover is down, mainly because the bookmaking business has done almost nothing to modernise its appeal or claw back custom from the national lottery.

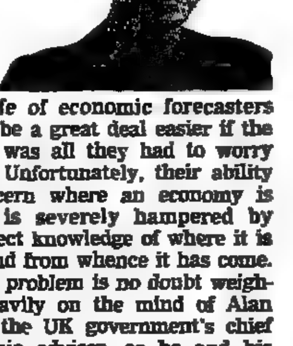
As a consequence, prizemoney levels are threatened, damaging the sport's allure among rich but gimlet-eyed racehorse owners. Nursing this ailing sport gingerly towards the *millennium may prove* Lord Fixit's fiercest challenge.

More juggling for IRI's industrious Pietro Ciucci

IRI, the Italian state holding company, has signalled its intention to press ahead with privatisation by promoting Pietro Ciucci to No 2 in the hierarchy, under chairman Michele Tedeschi, writes Andrew Hill in Milan.

As IRI's finance director for the last three years, Ciucci, 45, has played a central role in selling IRI's most valuable assets. And he knows just how desperately IRI needs to sell off remaining jewels, including its majority stake in Stet, the tele*communications holding company*, where he is a board member. IRI faces the wrath of Brussels if it does not reduce its looming debt by the *end of this year to the level agreed* with the European Commission three years ago. One of Ciucci's juggling acts will be to achieve that target while injecting cash into Alitalia, the struggling airline controlled by IRI.

Ciucci will be filling the shoes of Enrico Micheli, IRI's managing director. Micheli has been named under-secretary to the new prime minister, Romano Prodi, who is himself a former IRI chairman. Italian public sector protocol means that Micheli retains the title of general manager, but Ciucci – officially Micheli's deputy – will take on all his duties.



Robert Chote · Economics Notebook

Mist clouds crystal ball of statistics

Doubt about the data of past, present and future undermines any forecast

The life of economic forecasters would be a great deal easier if the future was all they had to worry about. Unfortunately, their ability to discern where an economy is going is severely hampered by imperfect knowledge of where it is now and from whence it has come.

That problem is no doubt weighing heavily on the mind of Alan Budd, the UK government's chief economic adviser, as he and his colleagues prepare the Treasury's summer forecast for release in early July. As things stand, officials expect to revise down a little the 3 per cent growth forecast for this year in last November's Budget. Ironically, this would probably take it closer to the figure they were in *fact* predicting last autumn before the chancellor nudged it up ahead of publication.

The arithmetic is compelling. *Last week* the Office for National Statistics stuck by its assessment that the economy expanded by 0.4 per cent between the fourth quarter of 1995 and the first quarter of this year. If the Treasury's forecast were to be fulfilled, this would demand that the economy expand by about 1.2 per cent a quarter during the rest of 1996.

Like most forecasters, the Treasury expects the economy to accelerate later this year as exports revive, investment picks up, consumer spending forges ahead and as companies' stock levels stabilise. But for growth to rebound immediately to twice its long-term trend rate is clearly implausible.

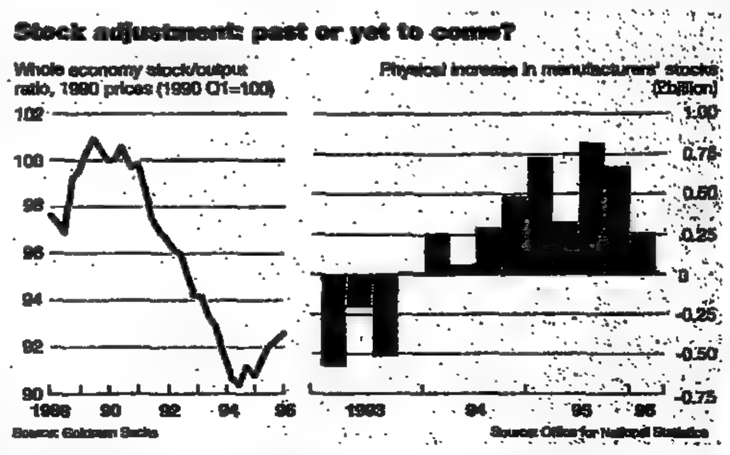
Even so, it is still a little too soon to dismiss the Budget growth forecast as just another piece of wishful thinking. It is an unfortunate characteristic of year-on-year output *comparisons that they are* unduly sensitive to events at the turn of the year. And the statisticians' assessment of what the economy was doing then may look very different next month.

That is because June will see the Office for National Statistics reappraise the recent history of economic growth as it compiles its annual *Blue Book* of national accounts. This could generate significant revisions as it takes account of information, reassesses seasonal trends, and makes methodological changes.

The chancellor's growth forecast may yet be rehabilitated because we take a different view of the past rather than a different view of the future. Remember that even Norman Lamont's much-ridiculed sightings of the "green shoots of economic spring" in late 1991 look rather more prescient with the benefit of hindsight than they did at the time.

In assessing the short-term dynamics of the economy, the biggest problem facing statisticians and forecasters is the stock cycle. Counting the unsold goods which companies have in their warehouses is a big headache. Regular surveys are undertaken, but they are far from reliable, so when the statisticians discover that changes in national output differ from changes in national spending, it is the stock figures they massage to bring them into line.

Even if the statisticians were able to tell us exactly what had happened to stocks, the implications would be far from clear. Stocks may build up either because companies have not sold as much as they expected in the past, or because they expect sales to pick *up in the future*. Conventional wisdom has it that manufacturers were caught out by the weakness of demand last year and that they have therefore suffered an involuntary rise in stocks.



Factory output has fallen now for two successive quarters, suggesting that companies have been tackling these excess stock levels by meeting demand from the storeroom shelf. But figures last week suggested that although companies were accumulating stocks at a slower rate, they might not have made much progress reducing them to satisfactory levels.

Similarly, the Confederation of British Industry's latest survey of manufacturers showed excess stock levels reaching a five-year high. But, like the official figures, this needs to be treated with caution: the rise of just-in-time inventory control may mean companies are simply being more demanding.

If we take the official figures and survey evidence at face value, the divide within Britain's two-speed economy is going to widen further. Consumer spending growth may accelerate from its present two-year high, while the technical recession in manufacturing might lengthen and deepen. Understandably, policymakers are not sure how to react, not least because one wave of the statisticians' wand could make this picture look very different.

As officials at the Treasury and the Bank puzzled over these uncertainties, Eddie George, the governor of the Bank of England, mounted an interesting defence of the authorities' overall policy approach at the University of Exeter.

He said the basic aim of monetary policy was "to maintain macro-economic stability by keeping aggregate demand in line with productive potential as it evolves over the medium and long term".

One option he argued against was explicitly targeting economic activity to keep output at its potential level or unemployment at its "natural" or non-accelerating inflation rate. The main problem, as this week's report by the chancellor's "six wise people" will demonstrate, is that no-one knows for sure what the natural rate of unemployment is and, therefore, what the level of potential output is. He might also have added that statistical problems mean we cannot even be sure what the actual level of output is, which makes the gap between actual and potential output doubly uncertain.

Not surprisingly, the governor came down in favour of the current system – setting interest rates to achieve a target for inflation two years' ahead by means of a forward looking forecast.

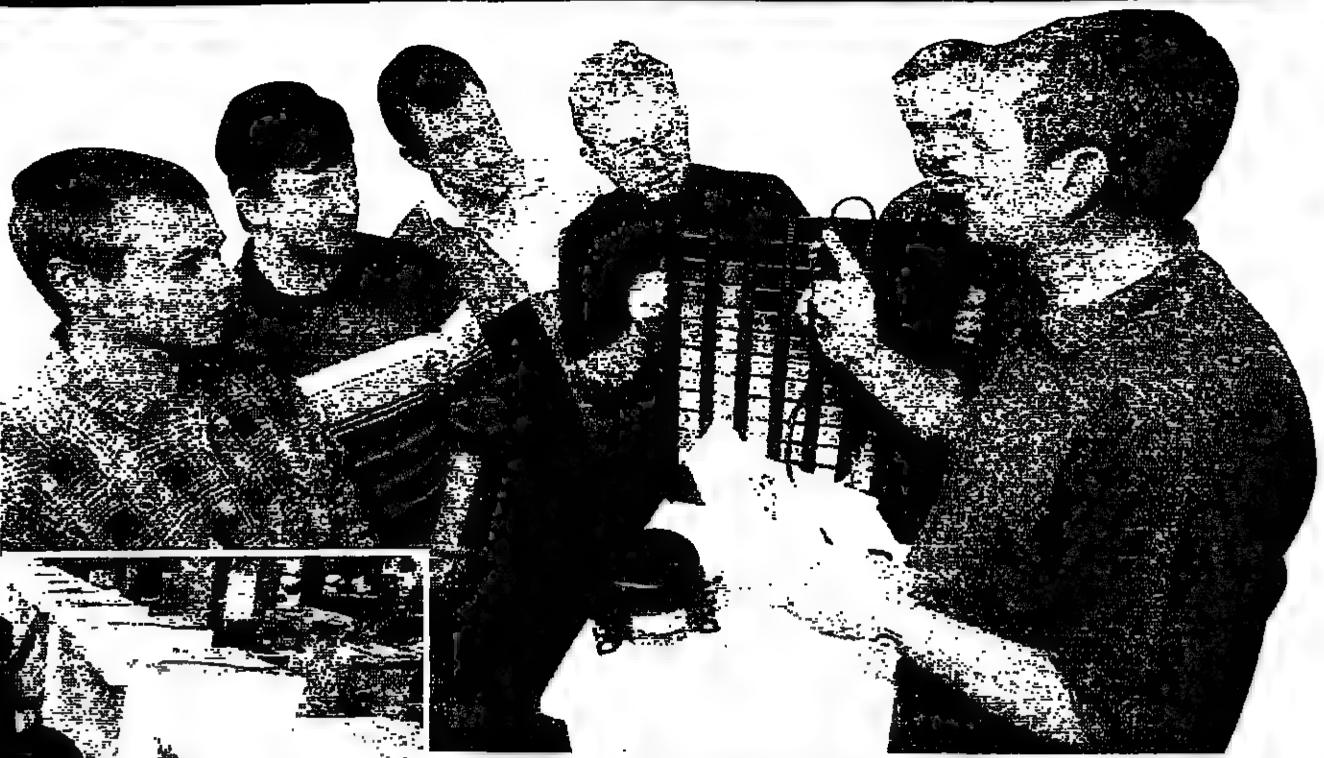
But this is a little disingenuous. Assessments of the output gap and of where unemployment lies relative to the natural rate are, for all their uncertainty, central to inflation forecasts.

The Bank and the Treasury should be a little more honest about this. By concealing the mini-forecasts on which monetary policy decisions are often based, the minutes of the meetings between the governor and chancellor convey the misleading and damaging impression that policy is based more on shortsighted assessment of the latest monthly numbers than forward-looking analysis.

Now that the Bank of England and the National Institute for Economic and Social Research are popularising the presentation of forecasts as probability ranges rather than point estimates, surely the public and the financial markets can be trusted with a fuller explanation of the predictions on which policy decisions are based.

Peter Marsh on the revolution at Lec Refrigeration as it attempts to transform its corporate style

The company that came in from the cold



Left: Sid Joynson (front left) says many of his ideas have come from copying Japanese-style working practices. Top: workers are trained to work in teams and devise solutions to production problems largely independently of supervisors

Bognor Regis, a quiet British seaside town, is an unlikely place for a revolution. But that is not too strong a word for the changes unfolding at Lec Refrigeration, a large UK white-goods manufacturer which is trying to shift its management thinking several decades in the space of about 15 months.

Habits developed over more than 40 years – since the company was set up in Bognor by Charles Purley, an entrepreneurial former fishmonger with an autocratic streak – are being turned on their head by a crash programme in worker empowerment.

All 1,000 Lec employees are being trained in a series of two-day "workshops" to come up with their own ideas for improving the company rather than having changes imposed by managers.

The workshops are supervised by Sid Joynson, a blunt-speaking and highly unconventional management "facilitator" who refers to shop-floor workers as "heroes" and has unprintable views about many current management practices.

There is a faint air of anarchy about the plant, as the company attempts a complete change in corporate style. The effort is likened to "trying to roller skate while playing Nintendo", by Terry Mahoney, Lec's production director who was brought in last October to oversee the changes.

Catalyst for the switch in philosophy was the £22m takeover of Lec in 1994 by Sime Darby, a Malaysian industrial conglomerate encompassing more than 200 companies with activities including tyre and latex manufacturing, oil and gas, property development, heavy equipment distribution and car sales. In the early 1990s the UK company had run into losses, as competition hotted up in the £3bn a year European refrigerator market.

Sime Darby sees Lec, which turns out £50m worth of products a year and where about three-quarters of the workers are on the shop-floor, as a strategic asset helping it to branch into European manufacturing.

The Malaysian giant has spent £30m building a gleaming new refrigerator factory, now nearing completion next to Lec's rambling and old-fashioned premises in West Sussex. Further investments are likely in the next decade, possibly taking Lec into other areas of consumer goods.

But largely on its own initiative, Lec realised that to take maximum advantage of Sime Darby's strategy, it had to change. That meant casting off its previously "top-down" management approach, and bringing in Japanese-style *kaizen* techniques in which workers are trained to work in teams and devise solutions to production problems largely independently of supervisors.

Such programmes are far from new. They have been brought in by many manufacturing companies, particularly in Britain, as a response to the competitive threat from industrial groups in East Asia.

However, many companies that engage consultants to unleash the entrepreneurial energies of their employees "create a strategy but go only a tenth of the way to making it happen", according to Graham Williams, general manager of CSC Manufacturing, part of the US-owned Computer Sciences Corporation and a leading consultancy in "continuous improvement" work methods.

The background to the changes is the fierce competition in the European domestic refrigerator business. The main players include Sweden's Electrolux, the German Bosch-Siemens group, the US's Whirlpool and Hotpoint, owned jointly by Britain's GEC and General Electric of the US.

Asian suppliers such as Matsushita of Japan, and Samsung and Daewoo of Korea, are also viewed as a big longer-term threat. In this environment, modern and flexible production techniques giving companies an ability to react quickly to changes in the market are a "key aspect to competitiveness", according to Scot Stevens, publisher of Appliance, a Chicago-based magazine covering white goods.

According to Mike Paige, a toolmaker who has worked 43 years at the company, Lec until recently was "a company stuck in a time warp". Until about a year ago, he says, "no one [from management] ever asked me my point of view".

Many of the characteristics of the Bognor company are due to Purley, one of Britain's most remarkable, though least known, industrial entrepreneurs.

Purley had few educational qualifications. In 1940 he started making fridges for his own use so that he did not have to cycle to Brighton each day to buy fresh fish. Buyers for the machines came forward and in 1942 in Longford Road, Bognor, he established Lec – short for Longford Engineering Company.

Under the stewardship of Purley, who remained chairman virtually up to his death in 1991 and was the largest shareholder, the company steadily expanded. But it retained an idiosyncratic, inward-looking style, according to Ken Cox, Lec's managing director who took over the top job shortly before the Lec takeover after nearly 30 years with the company.

According to Cox, who was formerly Lec's sales director, Purley eschewed modern management thinking. "He was intensely patriarchal, and committed to the company. It was his escape, his garden shed, his whole life."

However, he brooked little argument from subordinates. "The company conformed to how it had always been run. Several times it came close to collapse. It never ceases to amaze me that we survived," says Cox.

Purley's approach is now being turned upside down in the existing Lec factory – due to be gradually wound down over the next few years – where large white boards are dotted around close to production equipment. Workers are sticking on to these hundreds of small Post-it notes suggesting switches in working practice, according to guidelines established by Joynson in his training workshops.

The notes are coloured red for describing specific problems, yellow for facts about these cases and blue for ways to improve matters. The workers are divided into teams of up to 20 people and are given responsibility for sorting out production hiccups, or improving quality through cutting defects, with relatively little involvement by senior managers. Also festooned about the plant are Joynson's slogans, such as: "We attack problems, not people."

The ideas being introduced at Lec cover anything between altering the packaging for finished fridges to switching to new systems of adding insulation materials.

Mahoney says that by themselves none of the hundreds of employee suggestions bubbling up from the shop-floor is particularly radical. Taken together, though, he believes they should improve factory productivity by 10 per cent over the next couple of years. "By the end of this year [when the workshops should be finished] we should be getting an extra £1m a year free production," he says.

Joynson says many of his ideas have come from copying Japanese-style working practices, most notably practised by Toyota, Japan's biggest car maker. He teaches employees to take responsibility for their actions by breaking work down into small segments, identifying problems and then working methodically to solve them.

He is contemptuous of much of current management practices, embodied in a string of what he says are faddish names such as re-engineering.

"Companies tell me they are investing in their people," he says. "I tell them I don't want to invest in people, I want to set them free."

Joynson started his career as a teenage foundry worker in Yorkshire. He has worked for blue-chip companies including British Petroleum, Glaxo Wellcome and the Swiss engineering company Suter. But he is not to everyone's taste. One manager who used his services at another plant says he found Joynson too confrontational.

More positive, however, is Peter Stewart, a business development manager at the electricity generator PowerGen, which engaged Joynson to "empower" several hundred power-station workers. Joynson, says Stewart, "breaks down inhibitions" and "has a big effect on the bottom line", while John Garnett – chairman of the £250m-a-year turnover security systems division of Laird, the UK construction group, – says of the *kaizen* expert: "He helped us to improve our performance and productivity at a rate that was unimaginable."

Sentiments from the Lec workers so far are generally positive. "Until two years ago we were all kept completely in the dark [by the management]," says Graham Richards, who has worked at Lec for 20 years in the sheet metal shop. "Now the atmosphere is a lot better; we're all being asked to make a contribution."

Lec's version of a Mao-style cultural revolution is not without its problems. It means lots of ideas bubbling around with few people having an overall grasp of every aspect of what is happening. Also supervisors, or "charge hands", have to adapt to a new role of "coaching" employees to make suggestions rather than issuing orders.

However, the new arrangements can be a lot quicker in getting results; one tooling problem, for instance, was solved almost immediately by the worker concerned asking a toolmaker to change a mould. In the past he would have had to go to an engineer to get this done.

Vernon Jones, one of the charge hands, who has now rechristened his role as a "team leader", says he has adapted to the changes. Jones, who supervises about 30 people, says: "I used to be like a headless chicken chasing people around telling them what to do. Now I've slowed down, trying to guide people to see where problems are and the job's easier." The company has also taken on a new quality manager, Adrian Brunton, who previously worked in the electronics industry, to impose some pattern on what might otherwise be fairly disorderly changes.

No one at Lec doubts that the going will not be hard. "When we started this programme at the end of last year we were at the bottom of division three [in the UK football league] and we're now about half way up. But in two years I think we can be in the premier division," says Mahoney.

As for Cox, he is pleased to turn his back on the last 30 years. He says he has become a wholesale advocate of the changes, getting involved himself with regular *kaizen* "improvement" meetings with the shop-floor staff. "It's exciting seeing people blossom," he says. "People who have been at the factory for years pop out of the woodwork and become leaders overnight."

Time management? Get a secretary

Lucy Kellaway

Caroline Richards draws the line at taking her mobile phone into the lavatory at work, but apart from that she will do anything for Simon, her boss. Not only does she organise him, humour him and make him cups of tea, she protects him from himself. When he came back from lunch one day having fallen out with a business associate she sat on the fax machine to prevent him from sending a furious letter that would have only made matters worse. Halfway between nag-bag and therapist is how she described her role.

Simon and Caroline were one of several boss/secretary teams that paraded their relationship in front of millions of viewers last week for the first of a BBC series on secretaries, *I'll Just See If He's In.*

More hair-raising still was the relationship between the chaotic Julia Cleverdon, chief executive of Business in the Community, and her disciplinarian secretary, Bernie Hearn. Bernie calmly explained that she uses a network of spies to ensure Julia sticks to her schedule, and that sometimes she has to lock her wayward boss into her office to force her to get on with her work.

The programme's message was not subtle: secretaries are extraordinary, multi-talented people who keep their difficult, volatile bosses on the rails. They are put upon, uncomplaining and unsung.

In real life, however, there are just as many secretaries who spend all their energies sorting out their social life, fussing about how many calories they are eating, and who have difficultly taking down the simplest phone message correctly. But whether good or bad the secretary makes a vast difference to the boss's performance.

At worst, she (for it almost always is *she*) can make him (for it usually is *him*) disorganised and resentful at having to do a thousand extra tasks that could be delegated. At best, she keeps his diary, knows who is important and who is not, covers up for him, reads his mind, acts as his memory bank, advises him and bolsters his ego. In short she becomes essential to his success. When he moves jobs, he takes her with him.

I remember visiting Lord Young when he was still at Cable and Wireless and meeting his secretary who had then been with him for 16 years. She composed all his letters, and her firm manner gave the impression that he'd have been a lesser man without her.

There is nothing startling about the revelation that secretaries matter, but its implications generally go unrecognised. Just think about all those hundreds of volumes that have been written on the theory of leadership, with their scores of different definitions of what makes a good leader.

Nowhere on those lists appears the requirement that a good leader must have an excellent, compatible secretary. By thinking of boss and secretary as a complementary unit there is no longer any need to send the boss off on all those time management courses – which he is never going to get the hang of anyway. Much better to hire someone like Bernie Hearn as a secretary, and let her get on with it.

In case there are any secretaries reading this in the US, please excuse my use of the dreaded s-word. I gather you find the term offensive, and would rather be known as a "personal assistant". But if you'll forgive me for saying so, I think you are being a bit oversensitive.

My dictionary says a secretary is "one who assists another with the routine organisation of his business". I can't see anything wrong with that. Granted, secretaries generally do not get the credit they deserve. But that, alas, comes with the territory and not with the name.

Last week I wrote about self-important management consultants. This week I am knee-deep in self-important letters assuring me of what an excellent job they do. Thank you, Mr Ludwig Kanzler, for your letter (published in the FT last Friday) pointing out that consultants work long hours.

I was, in fact, well aware that consultants spend all their weekends in the office, but this knowledge does not endear them to me. The managers I admire most are those who do their work well but also have a life outside work, and who construct their organisations so that the same is possible for their employees.

Maybe it is too cynical to suggest that consultants work so hard because they get paid by the hour. But either way, surely they could just hire a few more of those people who are dying for a job in consulting and then spread the work about a bit?

Suggest as much to any management consultant and they will protest that you do not understand how they work. They will say that their work is not divisible and that's that. I might not be a management consultant but I can at least spot an argument designed to preserve existing working practices. We all think change is impossible in our organisations even if we earn a living imposing change on others.

DEALING WITH DISABILITY

Stammer

Nearly 40 years ago David Adams was sacked from his first job, in a bank, because he stammered. "The bank felt that I could not be promoted to do jobs which involved communicating with the public," he says.

Adams is now chief executive of the Railways Pension Trustee Company, which administers the £16.5bn railways pension fund. He admits that stammering has been a constant factor in his life. It caused low self-esteem and he still gets irritated at times with his handicap, which he describes as minor. "Some days are better than others, but I take it one day at a time," he says.

Approximately 1 per cent of the working population stammers. The causes are not properly understood. For adults there is no reliable "cure" although the problem can be managed through techniques including breath control.

Many stammerers believe the speech impediment causes job discrimination. Tim Shanks, development officer of the British Stammerers Association, says that 60 per cent of respondents in a survey of association members said they had experienced difficulty in either getting a job or had problems securing promotion.

Shanks says: "Some employers feel uncomfortable when they interview a stammerer or else they feel that the stammering individual does not convey to customers the corporate image they want to project. They may also believe that the individual is neurotic, but research shows that stammerers' basic psychological make-up is no different from non-stammerers."

Until the recent Disability Act was passed last year it was not illegal to discriminate against an individual because of his or her disability. However, the new act will make it against the law to treat a disabled person less favourably than others, unless there is good reason. Whether or not this will be applicable to people with stammers is not yet clear, there being no official list of disabilities within its remit.

An extreme case of perceived discrimination occurred two years ago when Dominic Barker, aged 26, shot himself after he was rejected for a series of jobs because of his stammer. In his diary he wrote: "Every damn employer sees it [stammering] as a problem. Your ability is not in question – but the stutter is." The catalyst for his death was a prospective employer who told him that he could have a job if he sorted out his impediment.

Shanks says that he suffered from a lack of self-confidence because of his stammer. After leaving college he took on manual jobs where talking was not part of the work. His life changed after he received therapy which taught him to accept his stammering and to be open about his speech difficulties.

Adams advises people in conversation with a stammerer not to show impatience. "It only makes the stammerer nervous," he says. "I also get irritated if people finish my words for me."

Interviewing stammerers, he says, can be difficult. "Some stammerers may think that I am trying to empathise with them," he says. He would not discriminate in favour of a stammerer. The issue is whether the individual is willing to try and take on responsibilities which would require communicating clearly, he says.

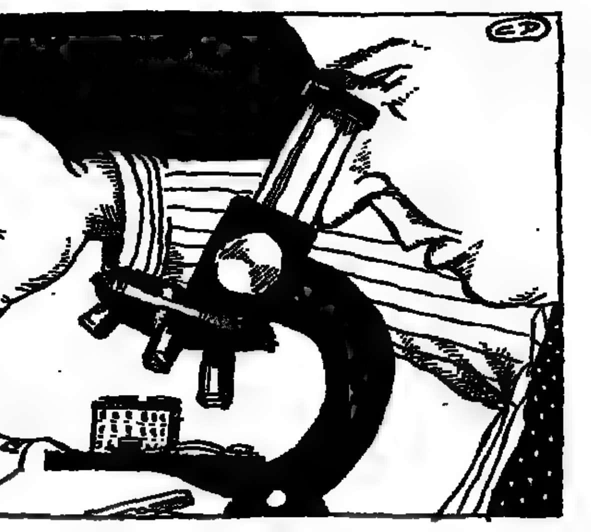
This is the first in a short series.

Lisa Wood

BUSINESS EDUCATION

Della Bradshaw examines why case studies are still proving popular

Setting a good example



When business school teaching methods come under scrutiny one of the most controversial is inevitably the case study, which focuses on one company at a pivotal point in its development. As a teaching method it has been around since the 1920s and the concept is intrinsically linked with Harvard, the doyen of business schools.

But while many academics believe the turbulent business life of the 1990s makes this method of teaching outmoded, for others – particularly in East Asia – case studies are now considered an innovative teaching method which can replace traditional lectures and promote student interaction.

Large companies often rely on case studies too, particularly those with their own training departments. As a result millions of copies of case studies are sold every year – 6m from Harvard alone – and the figure is growing.

Harvard is still by far the biggest producer. Faculty there write between 600 and 750 new cases every year. About half are the result of field studies, the rest compiled from annual reports and public information.

The other two big North American advocates, the Darden Graduate School of Business Administration at the University of Virginia and the Richard Ivey School of Business at the University of Western Ontario, also produce hundreds of cases a year. In Europe Insead, IMD, Cranfield, London Business School and Iese dominate.

For the faculty the overriding reason for writing a case is to fill a hole in a course, especially a new course. A secondary reason is opportunism – academics track particular companies and an opportunity may arise to look at the organisation in detail.

Needless to say, many companies are only prepared to allow access in order to promote the company. Cases are usually "neutral to positive", concedes Dwight Crane, senior associate dean at Harvard.

In spite of the vast sales figures making money barely enters the equation, say the academics. The cost of cases in Europe – from the European Case Clearing House, on the Cranfield School of Management campus – is £2.40 per copy for academic institutions.

The schools that base their teaching on case studies are locked into the approach for ideological reasons rather than money. "We are above all a case method school so it's the fodder with which our students get fed," says Robert Spekman, research professor at Darden who oversees all publications from the school. "It's what we do, it's the way we define research."

Even those schools that deride the case study approach often use Harvard cases in their own teaching, says Crane. (Two-thirds of all US MBA courses use Harvard case studies.)

Mike Leenders, chairman of the operations management group at the University of Western Ontario, and a proponent of the case study method for more than 25 years, believes that two of the biggest hurdles for the method are that cases are badly written – many, at up to 25 pages, are considerably too long – and that they are badly used.

Most academics like to talk about the study rather than allowing the students to "take ownership" of it as if they were making the decisions, he says. "Clearly the whole philosophy is that we write about real people in real organisations facing real issues."

Leenders believes students should be allowed time to study the case themselves before arguing through the issues in small groups, to bring a richer input to the full class discussion.

Some cases are available on video, others on CD-Rom, but the big leap will be when the cases are available on the Internet. That will only be possible once a suitable charging method has been devised, says Ira Blake, manager for case method seminars at the European Case Clearing House. "It is important to us to feed the money back to the people who put all the effort into producing the material in the first place."

NEWS FROM CAMPUS

Where content takes precedence over form

Management courses which deal with presentation skills are two a penny, but those which deal with analysing the content of proposals are less common. Scquare is a course which involves identifying the critical issue, developing a business plan, checking its authenticity and then realising the proposal, according to its developers, Magnolia House in London.

The 25-hour course has already been adopted as part of the full-time Master of Business Administration degree at Cranfield School of Management. Places are available on open courses or Scquare can also be taught for individual companies with an optional extra day to help the company deal with its specific problems.
Magnolia House: UK, (0)171 639 1032.

Vietnamese managers to acquire US skills

In plans to train Vietnamese managers in American business skills the Amos Tuck School of Business Administration at Dartmouth College, New Hampshire, has begun a co-operative executive programme with the Vietnam National University's new Hanoi School of Business.

Thirty senior-level Vietnamese managers have just begun the course in Hanoi, which lasts 12 and a half weeks and provides intensive study in accounting, business planning, marketing and other management skills. Included in the course is a trip to the US where participants will tour organisations such as Boeing and the New York Stock Exchange. Final courses are taught on the Tuck campus.
Tuck: US, 603 646 3661.

Funding for four-year degree course

The European Business School, based at Regent's College in London, is offering a £30,000 bursary to cover the costs of a four-year BA degree course in international business and management at the school. Applications for the John Payne scholarship must write an essay or report on one aspect of the European Union. The degree from the college is validated by the Open University.
European BS: UK, (0)171 487 7454.

Small businesses get their own MBA

The first Master of Business Administration degree in the UK designed specifically for small businesses will begin in Bolton in September.

The course, developed by Bolton business school in partnership with the Bolton Bury Tec (training and enterprise council), will involve part-time weekend study combined with a "learning contract" which will be agreed between the applicant, the applicant's employer and the business school. The student will then develop competencies required under the contract and be assessed accordingly.
Bolton BS: UK, (0)1204 528851.

Financial help to study in the Big Apple

European students who want to study in New York – but cannot afford the fees – could soon be supported by the Columbia Business School European Scholarship Fund.

The establishment of the fund will be announced this weekend at Columbia's third pan-European alumni reunion, which is to be held in London.
Columbia BS: US, 212 854 6048.

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Contact: Katherine Edwards, Neil Stewart Associates Tel: 0171-222-1280/Fax: -1278
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Transport Policy Conference
A one day conference to examine policy proposals of the Labour Party following agreement of the forthcoming policy document. Speakers include: Claire Short MP, Graham Allen MP, Philip Lowe (European Commission) and Chris Austen (British Railways Board).
Contact: Samantha Dixon, Neil Stewart Associates (Tel: 0171-222-1280/ Fax: 0171-222-1278)
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Tel: 0171 395 1298 Fax: 0171 497 5538
Loews Hotel, MONTE CARLO

JUNE 24-27
The African Capital Markets Forum
A permanent forum of stock exchanges, financial institutions, regulators, policy-makers, development agencies and professional associations. Launching during International Conference on Reviving Private Investment in USA.
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Travel News • Roger Bray

TGV to Amsterdam

Europe's high-speed railways launch a challenge to the airlines next week with the introduction of a TGV service linking Paris, Brussels and Amsterdam. Operating under the brand name Thalys, it will cut journey times by up to 30 minutes.

The opening of a 15km section of TGV track in Belgium means that from June 2 trains can bypass Lille, where until now they have been forced to slow down. The new, faster line goes via Mons, reducing the Paris-Brussels journey to 2 hours 3 minutes. When the full length of TGV Belge track is completed, that will be cut to 1 hour 26 minutes.

Some Brussels services will carry on to Liege or Antwerp. The journey time from the French capital to Amsterdam will be reduced immediately from 5 hours 20 minutes to 4 hours 50 minutes – and eventually 3 hours 56 minutes.

City air link

Alitalia plans to start flying from London City airport to Milan by September. The service has been held up by the demise of Dutch aircraft manufacturer Fokker, which delayed delivery of a jet modified to land on the Docklands runway.

The airline, which already flies to Milan from Heathrow and Gatwick, aims to offer two departures a day from Monday to Friday. It says: "We were supposed to start in June. We had already received six of the 15 Fokker 70s we ordered but we are no longer sure of the delivery schedule. Unfortunately the seventh was the one earmarked for the Milan service."

Cholera warning

The Malaysian authorities are taking emergency measures to counter an outbreak of cholera, centred on the island of Penang. Travellers are advised not to drink from taps, to stick to bottled water and avoid ice.

Meanwhile, better health news from Russia, where the World Health Organisation reports a huge fall in the incidence of diphtheria after a widespread immunisation campaign. Reported cases fell greatly in the second half of last year.

The picture elsewhere in the former USSR is less clear. In Azerbaijan, Kazakhstan and Tajikistan, for example, the number of cases roughly matched, or exceeded, those recorded in the same months of 1995. Doctors still recommend immunisation for travellers to most former Soviet states.

Destination India

Japan's All Nippon Airways is seeking permission to fly to India, operating two-class Boeing 767s from Tokyo to Delhi via Bangkok, and Osaka to Mumbai (Bombay). The start of the Mumbai service is pencilled in for September 5. Delhi flights are scheduled to begin on October 4.

Atlanta's fine fare

Air travellers have long felt an affinity with sheep. At Atlanta's Hartsfield airport they may now safely graze. A 225,000-sq-ft atrium, recently opened between the north and south terminals, includes a "food court" of the kind that has become commonplace in American shopping malls. This allows passengers travelling together to pick up food from a variety of outlets and regroup at the same table.

The choice ranges from fast-food staples such as pizza and hamburgers to southern fried chicken and Creole gumbo. Airport operators desperate for new revenue but starved of space will look on in envy. There will be a total of 130 new shops at Hartsfield to take advantage of a flood of visitors to this summer's Olympic Games. To quote the management: "The days of boring airport food are over."

Likely weather in the leading business centres

	Tue	Wed	Thur	Fri	Sat
Tokyo	25	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	26	25	28	26	27
London	17	18	[illegible]	17	[illegible]
Frankfurt	14	21	26	28	24
New York	[illegible]	16	[illegible]	18	[illegible]
L. Angeles	21	24	22	22	[illegible]
Milan	[illegible]	21	[illegible]	[illegible]	[illegible]
Paris	19	22	26	25	22
Zurich	12	17	[illegible]	[illegible]	[illegible]

Information supplied by Meteo Consult of the Netherlands

Amon Cohen on the growing demand for long-stay hotel accommodation

Home from home

Think of the most wonderful business hotel you have ever stayed in. It had a triple bed, almost certainly. Service, food and facilities were immaculate, naturally. You could even watch hilarious Norwegian game shows on cable television. However, fun as all this might have been for a night or two, would you really want to stay there a month?

For most business travellers, the answer is No, which is why hotel companies are starting to realise they need some fresh ideas for the long-stay market. The obvious answer is to make the guests' surroundings more homely – an ambition largely achieved by offering separate lounge and bedroom and, crucially, kitchen facilities.

Solutions to hoteliers' long-stay challenge have evolved differently on either side of the Atlantic. In the US, leading extended-stay brands such as Embassy Suites and the Marriott-owned Residence Inn have developed purpose-built lodgings aimed at those spending five or more nights away from home.

They are often found in suburban or out-of-town locations. Although such brands have been around for up to 20 years (Residence Inn has more than 180 hotels in 42 US states), the market is poised for rapid expansion.

US market research firm Smith Travel Research estimates that US demand for long-stay accommodation has outstripped supply by a rate of two to one over the past five years. Partly as a result, both Marriott and Choice Hotels International will launch mid-market extended stay brands this year.

In Europe, however, long-stay hotel accommodation remains principally an upmarket option. In London, city-centre service apartments such as The Athenaeum now find that 50 per cent of their guests are corporate customers, compared to 35 per cent five years ago.

It is perhaps with this trend in mind that traditional hotels are starting to build apartments within their existing properties. Thistle Hotels opened an apartment at the Royal Horseguards Hotel in London last year, and is now hoping to find space for another on its premises.

Another Thistle Hotel, the Tower at London's Tower Bridge, has demolished an entire floor of 29 rooms and is replacing them with 12 apartments, due to open next month. It is also planning to convert part of an adjacent hostel block for staff into at least nine more apartments by the end of the year.

Thistle chief executive Robert Peel believes the main selling point for long-stay apartments is the kitchen. "Not having one takes your freedom away. The chances are that guests will not use it but it is important psychologically because anything that makes people feel at home makes them happier."

The apartment suite at the Royal Horseguards is an impressive conversion of derelict store rooms at the top of the hotel. The lounge has a fax machine and CD player, while the kitchenette includes a cooker, conventional and microwave ovens, coffee percolator and toaster.

At £1,700 for a week's rental, it works out cheaper *per diem* than an ordinary suite without kitchen facilities, which costs £395 a night. Guests receive normal hotel services, such as housekeeping, room service and laundry. They also receive a starter pack of basic foods, and the housekeeper will send out for specially requested items.

Royal Horseguards general manager Julia Fitzgerald says the apartment is proving particularly popular with women executives. "Perhaps they use the kitchen more than men because they don't want to eat alone in the restaurant."

Other travellers for whom apartments would be especially useful are couples with babies, those with special dietary needs, and those wanting to hold confidential meetings. However, many users are simply executives who are relocating or on temporary postings.

At the Tower, plans are even more grandiose. The apartment floor will feature its own gymnasium and two suites will have extra bedrooms and automatic dishwashers. Michael Howell, deputy general manager, says: "There is a Safeway over the road and we will even take your trolley back."

London is regarded as having the most comprehensive long-stay hotel facilities in Europe, but the idea is becoming popular on the other side of the continent. Occupancy levels in the 10 apartments at the SAS Radisson Hotel in the Latvian capital, Riga, are close to 100 per cent, claims Mike Pilkington, the hotel's director of sales and marketing.

"We are looking at increasing the number of apartments because of the heavy demand. There is a lack of accommodation up to western standards in Riga, and we can offer guests safety, security and convenience. Companies are leasing our apartments for anything from one month to two years."

In the US, hotel chain Doubletree Hotels is to launch an extended-stay brand called Candlewood, a down-market product that will cost about \$50 a night. It predicts there will be a low-budget, extended-stay property in every US town of 100,000 people or more within 10 years.

Choice's new brand, MainStay Suites, will be aimed slightly higher, with average daily rates of \$55 to \$65, which is \$20 to \$30 cheaper than most existing US extended-stay properties. It believes its main clients will be middle management and technical professionals requiring lodging for five nights or more. The first MainStay is to open in Plano, Texas, in September, with 10 more next year.

Marriott's TownePlace Suites will have rates ranging from \$45 to \$60, with the first of an initial batch of five properties set to open in Newport News, Virginia. Significantly, neither Marriott nor Choice plans to export their extended-stay brands across the Atlantic, so it looks as if city-centre apartments, often attached to traditional hotels, will remain the preferred option in Europe for the time being.

Eurocommuter enjoys the age of the train

Lille in northern France is a rabbit warren: a nightmare of streets that seem deliberately designed to confuse and deter motorists. So it is appropriate that the city should have become not just a hub but a home base for a new breed of European train travellers.

Susan Carey is a perfect example. One week this spring she took tea and did a little shopping in London, two hours from Lille by rail; visited the opera in Brussels, 75 minutes up the track; and popped into Paris in less than an hour for a service at St George's Anglican Church.

She is enjoying a trend with such potential that advertisements have been appearing in Lille, urging locals to learn English, the better to cope with their new customers.

As head of part of the Channel tunnel's Eurostar operation in the Netherlands and France, she organises complex train leases and helps increase business from the continent to London. She works at home and in Paris. Even if it is necessary to go to Amsterdam, the train journey from Lille – just over four hours – takes no longer than a flight via Charles de Gaulle and Schiphol airports.

Lille confounds its industrial image. The narrow streets of the old centre are packed with elegant shops. Restaurants, including A l'Huitrière in the Rue Chats Bossus (one Michelin star), where a *prix fixe* starts at FFr260 (£33), are in the Paris price league.

But it was the opening of the FFr5.5bn Euralille complex and rail hub, an interchange for Eurostar services and TGVs, that inflated its value as a base for Europerson.

Despite that, property remains a better deal than in Paris. Carey relinquished a FFr4,500-a-month rented flat in Paris's 1st *arondissement* and bought a FFr800,000 house in Lille where she lives with partner Paul Conyers-Silverthorn, who is writing a book about the city.

"Lille is fabulous," she says. "I love it and now that jobs are becoming so mobile it is important to have somewhere central to live even if my work changes. People are a lot friendlier than in Paris and I love Lille's shops. Everything is within walking distance, too."

Are there any frustrations? "It is a small town compared with Paris and London. You don't get such a variety of cultural events but what there is, you tend to go to."

There has to be at least one drawback. Lille, says Carey, has what is claimed to be the biggest cinema in Europe but it hardly ever shows films that are not dubbed. In Paris, on the other hand, you can usually find the *version originale*.

Roger Bray

John Malone: "Nobody can really afford to get mad with their competitors, because they are partners in one area and competitors in another"

Master of bits at home in the hub

TCI's John Malone has digits in many technological pies, writes **Raymond Snoddy**

John Malone, the billionaire president and chief executive of Tele-Communications Inc (TCI), is not as well known as Bill Gates of Microsoft, Ted Turner of Turner Broadcasting, or News Corporation's Rupert Murdoch. But they all know Malone. Last Wednesday, Malone spent the day in Seattle with Gates reviewing projects such as interactive television news on the Internet.

The following day, News Corp executives were in TCI's headquarters in Denver trying to finalise a new deal. Earlier this month, Malone and Murdoch signed a comprehensive agreement under which News Corp and two TCI companies, Liberty Media and Tele-Communications International, will form a worldwide alliance to own and operate sports channels on a global basis.

TCI is also an important shareholder in Turner Broadcasting and will be the single largest shareholder in the expanded Time Warner-Turner group if the merger goes ahead in its present form. (Malone goes quail shooting with Turner and his wife, Jane Fonda).

Malone says he values each of his very different friendships with the three men who are almost defining the future shape of the global media and information society, and that he sees himself as the hub around which they all revolve. They visit the hub in Denver – where Malone sits behind a large semi-circular polished-stone desk on the 11th floor in front of a 5ft replica of a 19th century America's Cup yacht – for one simple reason.

Through a string of TCI companies that TCI executives estimate could be worth anything from \$30bn (£20bn) to \$35bn if they were ever sold, Malone and his partner, Bob Magness, controls not only programme content in the US but increasingly around the world, and owns channels to deliver that content to audiences.

TCI owns the largest cable network in the US with 13m subscribers and is also the largest operator of the medium-power satellite system Primestar, which delivers multi-channel television to rural areas that will never get cable. TCI has a financial interest in no less than 91 programme services in the US while its international arm, which is separately traded on Nasdaq, accounts for a further 30 channels. Malone says: "Everything comes our way".

In the new-media age, the need for good corporate relationships at the highest level transcends power, convenience or self-interest. It has become a necessity. "No organisation has the skill level or the balance sheet, except maybe Bill Gates, to do it all," said Malone in a rare interview. He meant that world-class media players, with egos to match, who compete and co-operate simultaneously in different markets, have to find ways of maintaining at least minimum levels of civility.

Malone sees it as a bit like the theory of nuclear deterrence. Any of the big media players could cause massive damage to each other. It is just not in their interests to do so.

Malone says: "Nobody can really afford to get mad with their competitors because they are partners in one area and competitors in another. It has to be that way because the integration of these businesses cuts across so many technologies and so many business areas that it requires multiple partners to be successful." Malone is 56. He has been in charge at TCI since 1973, when it was a small cable company.

The convergence of computing, telephony and the production and supply of media content is driven by the move to digital. To an engineer – John Malone, PhD, is an engineer – it doesn't matter whether what is being distributed is a movie, a baseball or soccer game, a news or weather update, or a piece of music. It's all the same: it's all bits.

TCI has embraced all the new digital technologies, though it does not claim to produce inventions. "We are deployers and synthesisers of technology," says Malone, adding that TCI is running fast in many different directions, following – to a great extent – in technology's wake. "This is like a chain. It takes you into new businesses," says Malone. He is much less sure about the ultimate destination or speed of change. Instead, he believes in concentrating on new products and services he thinks the public will buy.

One new service that Malone is convinced will be successful offers fast access to the Internet. TCI will launch @ Home, a service using a cable modem that will provide access to the Net 700 times faster than current services, in the US later this year and in the UK early next year through TCI's cable partner in Britain, TeleWest.

"We think there is a huge appetite for high-speed Internet inter-connection," he says. He is optimistic about the launch of digital-cable, which has its most significant commercial launch in the US in Hartford, Connecticut, in October.

Apart from high-speed Internet access when it becomes available, digital-cable viewers will receive between 120 and 150 channels, including around 60 channels devoted to near-video-on-demand, showing hit movies on a large number of channels with staggered starts so that viewers are ever only 20 minutes from the start of a movie they want to see.

Malone says he is extremely conservative when pondering which particular new-media strategies or technologies will be most successful. "When I go horse racing, if three horses look as if they have a chance of winning, I want money on all three," he says. The industry is growing so fast that Malone often has a stake in two or three entrants in the belief that all will do well.

It is important, says Malone, for big-time communications concerns to own channels of distribution as well as programme content, though he is still not sure how far he should involve TCI in content. "Should I be trying to buy Gannett [a US newspaper group], USA Today or make a deal domestically with Dow Jones? I don't know."

TCI's strategy is straightforward: own or control a conduit to the consumer and stuff as much down it as you can. The TCI president does not believe the television set and the computer will merge completely, to be replaced by a single box or screen on the wall, although the two – he thinks – will become increasingly alike. He believes there will still be a separate screen primarily for entertainment and another that will be used for work.

Of the battle between cable and satellite, Malone says the outcome depends on the economics and politics in different countries. In the US he believes digital-cable will be very powerful, partly because of Internet access, and that cable could also turn out to be dominant in Asia for political reasons. "They don't want regional satellites with Rupert Murdoch deciding what they should watch," he says.

For all its power and wealth, perhaps the most remarkable thing about TCI is that it never makes profits – or, when it does, that that is regarded as an aberration requiring investigation. Malone says it is the aspect of the company that is most misunderstood. "The last thing you want to do is pay taxes. You don't mind paying taxes at some theoretical time in the future but paying taxes now is kind of silly because you can invest the money better than the government. That's our mentality," he says.

So any surplus money is invested in developing separate companies which are then spun-off from the parent, such as Liberty or TCI International. TCI not only defers paying taxes as long as possible – it does not pay dividends in the form of distributable cash because that, too, is taxable. "If our shareholders can get a dividend in the form of stock in a new company every year or so, that's the dividend and nobody pays any taxes on that. It's a capital gain mentality and capital gains in this country [US] are taxed at a lower rate than ordinary income," he says.

For 25 years, TCI says it has averaged 25 per cent growth, although the rate slowed somewhat after the 1992 Cable Bill, which re-regulated the cable industry in the US. The first-quarter results for the three months to the end of March 1996 give the flavour of TCI. Revenues rose by more than \$400m to \$1.96bn, but net losses nearly doubled to \$86m. Total assets were stated to be \$26.5bn, and debt totalled \$13bn. Malone believes the company has built up value that has not yet been appreciated by the market.

Primestar, TCI's satellite operation, could be worth, according to Malone, "a few billion dollars", and that value will be released to shareholders "so they can have another company in the satellite business". A 30 per cent stake in Sprint Spectrum, a telephone services company, could be worth another \$3bn, Malone believes.

The complexity of TCI is partly the result of spinning off new companies, but is also a response to the problems of dealing with regulators who often have contradictory views of what is permitted. For example, TCI cannot own broadcast stations in the US in areas where it has cable networks. Yet TCI benefits greatly from an option to buy Silver King, a large chain of UHF broadcasting stations run by Barry Diller – an option that cannot be exercised under existing rules. It is an example of how John Malone has a finger in almost every media pie.

With his chairman, Bob Magness, who mortgaged his ranch to buy a small cable company in Texas in the 1950s, Malone effectively controls TCI and the growing number of associated companies. Although the two only own 8 per cent of the stock, they hold 45 per cent of the voting rights. It means that John Malone is free to take a long-term view and to follow his hunches.

One of the things he is most interested in is the application of computers to education. The aim, he says, is to turn education from "an art to a science". The company is working on interactive computer teaching systems both for high school and college students. An important target is to train teachers in the latest information technology. Malone hopes the courses will become so popular that students will want to take them at home, providing another outlet for his cable business.

Tim Jackson

A Net loss in quality of service

Some weeks ago, this column covered a new Internet stockbroking business by the name of E*Trade. The company, based in California, offers a standard service to retail investors: buying and selling the shares of public companies in small lots for commissions that make even deep-discount houses seem over-priced. At a flat fee of \$15 (£9.80) to trade on the New York stock exchange, and \$20 to trade on Nasdaq, it sounded too good to be true.

It was. I decided to open an account – and experienced the grim reality of dealing with an Internet startup. After obtaining the application forms, sending them off and waiting a month, I contacted the company by e-mail, only to be told that the forms had never been received.

The next day, the forms came back, with a message saying that as a non-US resident I needed to fill out a further form. That I did. Chasing the matter another month later, I received the package again, with instructions to start from scratch as one detail had been omitted. It was nearly three months before the account was open.

The experience reminded me of a conversation with an eminent computer scientist who bemoaned the effect technology is having on service industries. He complained that the Net, as with computers before it, is removing from organisations the people who apply the oil when the wheels squeak. The result may be lower costs, he grumbled, but service gets worse by the year.

Look at voice-mail, he said. Today it is impossible to reach anyone on the phone, because calls are connected directly to automated answering systems. Twenty years ago calls may have been connected by middle-aged ladies plugging wires into rudimentary electrical boards, but at least they were connected to real people.

The scientist had a good point, and one that has great public resonance. But I think it is wrong, and worth saying why. Soon after the E*Trade debacle, I decided to open an account with a discount telephone brokerage in London called City Deal. Opening an account there was marginally easier than with E*Trade, but problems soon began.

The staff seemed to be overworked and undertrained, and the company's system appeared to have been designed with a lack of imagination that would make the manager of a Soviet steel mill gasp. Yet there was no Net technology at work here. It was just the old problem of a not very well run company with curt staff.

One conclusion from the comparison might be as follows. For any given service business, there is an infinite number of combinations of price and quality of service, and for a given technology, the two are inversely related. If there are more people in the customer service department and those people are better paid, then the chances are higher that they will deal with customers' problems quickly and competently. Fewer people means worse service.

The Net makes it possible to reduce service-industry costs radically, not least because it allows the customer to do the order-taking. That is particularly significant in businesses such as retail banking and broking, where front-end data entry represents most of the labour costs. Yet there is nothing inherent in the transformation that dictates any particular combination of price and quality.

Assuming that use of the Net takes out half the cost base, the company can choose between different options. It can deliver the same service for half the price, a better service for two-thirds of the price, or a worse service for one-third of the price.

Two factors give the Net a further edge. One is that taking humans out of the order-taking reduces the error rate. The other is that with many transactions, such as selling shares or paying a gas bill, the customer can carry out the transaction five times faster using the Net. That is because handing over the information itself – a date, price, quantity and name, for instance – takes only a few seconds. Over the Net, the customer's identity can be confirmed automatically. By telephone, the 10-second transaction is often preceded by three minutes of muzak and two minutes of identity-checking using code words, dates of birth, and post codes.

Why were there problems with E*Trade? The answer, to be fair, is probably that the company's low prices have provoked a flood of application forms from price-sensitive retail investors, throwing the office into chaos. Six months from now, the company's system will probably be stable, and its service will probably pull comfortably ahead of the lower-tech telephone equivalent.

But that should not be read as a recommendation of the company. Since the publication of the earlier column, another firm has emerged, charging only \$12 a trade – implying, on a transaction of \$8,000, a 60 per cent saving on the lowest-cost broking service in Britain. This company – www.ebroker.com – appears to be suffering even worse teething problems than E*Trade. I made five unsuccessful attempts last week to reach its Web site. But this firm, too, will eventually get its act together. When it does, the ubiquitous, instantaneous access to information provided by the Net will keep pressure on prices downwards.

Tim.Jackson@pobox.com

Cyber sightings

● ChinaInternet (*www.chinainternet.com*) is under construction to provide material covering business and media in China, Taiwan and Hong Kong. Nice graphics, particularly the maps, although the download can be excruciatingly slow.

● Techweb's investor news page (*http://techweb.cmp.com/investor*) is well worth a look for a briefing on the technology industry and a snapshot of its markets.

● Productivity South's straightforward site for the Southampton Trade and Industry Exhibition (*wwwuk.com/sti96*) has advance information about the show on June 19-20. Exhibitors get a free ad on the Web site.

● On the subject of conventions, *Variety* magazine's ShowBiz Expo, for anyone concerned with the future of the entertainment industry, is in Los Angeles on June 28-30, with an emphasis on digital technology. Details at *http://showbizexpo.com* – a nice promo site in itself.

● The Lead Industries Association has put up a good, user-friendly site (*www.leadinfo.com*) with information on the lead industry and its applications in architecture and the construction industry. Don't all rush . . .

● Finance Area (*www.tsi.it/finanza/index.html*) is an Italian site collating financial information and contacts. Good use of frames, but it can take a while to load properly if not on a fast connection.

● Another enhanced site is the online version of *Scientific American* magazine (*www.sciam.com*). As well as the sort of informative content you'd expect – the summaries are particularly useful – it has one particularly nice feature: when you click on the home page advert (in this case for Saab) it opens a new browser window so you don't have to leave the Sciam site. Worth bookmarking.

● The US Environmental Protection Agency's Mixed Waste Team Home Page (*www.epa.gov/radiation/mixed-waste*) has, honestly, more stuff than any sane person could ever need on identifying and treating nuclear materials, with lots of pictures of guys in biohazard suits. Call it up when digging a big hole in the back garden has lost its entertainment value.

● Finally, a new site to stop my six year-old going straight to *Disney.com*. This week's big hit in the kids' room is *www.panda.org*, the World-wide Fund for Nature's site.

steve.mcgookin@ft.com

Rugby's small fry may rebel

Keith Wheatley on the undervalued work of people at the sport's grass-roots

While the reactionaries at the top of English rugby union appear to have been defeated by the biggest clubs, who are determined to move boldly into the new era of professionalism, there is still plenty of unhappiness at the grass-roots of the sport. In the long run, the sport's grandees will have to listen to the small clubs, as well as the big ones.

Had it happened, a unilateral breakaway by the 20 soon-to-be professional clubs such as Bath, Leicester and Harlequins might have represented not much more than loss of face for the Rugby Football Union. After all, a unilateral declaration of independence by England's leading soccer clubs did not destroy English football. Possibly the reverse.

But rugby's deepest problems lie at the other end of the game. The sport's strength has always been a family-like, almost tribal bonding within clubs. A minority sport played exclusively for the love of the game has created nearly 2,000 small clubs with great assets of loyalty and affection but relatively shallow pockets. So the trend towards formalising and centralising everything from fixtures to results has created a wave of discontent in the lower half of the food chain.

This discontent led directly to the election of Cliff Brittle as executive chairman of the Rugby Football Union, against the union's "official" candidate, with a mandate to resist all change.

Slough, a medium-sized town close to London's Heathrow airport, is a classic example of the junior club. It puts out five teams on an average Saturday, has a thriving junior section, and occasionally produces a player such as Paul Rendall good enough to become an England regular. Yet Slough are unhappy.

"We've just had our fixture list for next season sent to us," says club chairman Peter Crockford. "The divisions have all been re-arranged and we now play Stow-on-the-Wold and various other Cotswold towns. I think our nearest game is Bicester. Suddenly, our coach bill alone is going to be around £3,000 – more than doubled since last year. Twice a season we get our share of the Courage sponsorship money. The last cheque I saw was for £90. We had one before Christmas for £135."

The vast majority of English rugby clubs – about 1,700 – now play in the multiple divisions of the Courage league. Slough is in Southern Counties (North). Courage put more than £2m into rugby, but the bulk of it goes to the major clubs.

In his definitive recent history of British rugby, *Endless Winter*, writer Stephen Jones points out that the introduction of a league system, with promotion, relegation and external administration, was the turning point in the evolution of the upper reaches of rugby union towards professionalism.

People like Crockford, with a lifetime as a player or official, are now seriously doubting whether the league system was much of a step forward for those who enjoy recreational rugby. "We still maintain friendly relations with other local clubs, but we don't get to play them because there isn't any gap in the fixture card," says Crockford. "Our fixtures arrive in the post on a computer print-out. No one in the club has any say in who we play and when. If you don't phone your result in by 6pm on matchday you're instantly fined £20. The invoice will arrive on Monday. Same amount if you forget to get the referee to sign the match report."

These conscripts in a rugby army are on the point of rebellion. They say that the Courage league arrived as a *fait accompli* from Twickenham (the sport's HQ) and Crockford emphasises that the same insular process is under way once more. "The junior clubs are not represented at the current talks, and we should be," he says.

The complicated negotiations, threats and deadlines that have enveloped the sport revolve essentially around money. Which television deal should rugby opt for, satellite or terrestrial, and how should the TV income be shared? Each of the 20 clubs that make up EPRUC (English Professional Rugby Union Clubs) is facing salary costs of up to £750,000 a year from next season, and none yet has enough revenue to pay salaries like that. They are anxious – virtually desperate – to know where the money is to come from.

Slough have no professional players, nor are they likely to have any with a net annual income of £34,000. One visitor from Gloucester asked what the pay was like in the first team, but they never saw or heard from him again.

"Because we're not paying wages, the people at Twickenham think the junior clubs have no interest in these negotiations," says Crockford. "But I'll give you an example of how it will affect us. If Twickenham do a deal with Sky then we're going to need a satellite connection at the club to watch internationals. That will cost us about £400 a year. Will we get any extra income from Twickenham out of the TV deal? Not if the Courage sponsorship is anything to go by. Any more 'support' like that and clubs like us will be in the poorhouse. I'm not actually saying we should get a lot more money. What we do need is some degree of consideration and involvement. I want to know if our game has a structure that is going to satisfy the players and supporters next year."

With its 350 members, comfortable clubhouse on the edge of a prosperous town with low unemployment, and innovative commercial activities, Slough are not a club that will roll over and go televisionless for want of funds that could be raised at a single barbecue-dance. What is at stake here is loyalty and commitment, the values that have underwritten rugby union's growth in the past decade.

Many of those with anxieties do not care to speak out for fear of being labelled "blazered dinosaurs" who cannot stomach the radical changes afoot. "I'm not against professionalism and neither are most of the rugby people I know," says Crockford. "We have the same worries as the EPRUC clubs – just scaled down a bit. What makes us angry is that the work of thousands of people at the grass-roots of a great sport is being devalued by those who claim to lead it."

England regular Paul Rendall, centre, rose through the ranks at Slough

Deconstructionism – an empty bid to fill a cultural void

Libeskind's design for the V&A revives an outmoded theory, writes **Colin Amery**

What *is* "deconstructionism"? Why is London suddenly taking seriously a set of old ideas that elsewhere were passé years ago? The reason is the proposal for a new part of the Victoria and Albert Museum by a Polish-American architect, Daniel Libeskind, who proclaims the gospel of "decon" wherever he goes.

When the trustees of the V&A and their director wanted a wheeze to try to put the ailing museum back on the cultural map, they reached for Libeskind. The trustees and their architectural advisers had enjoyed themselves running a private architectural competition for an extension to the museum. That sort of competition has recently become a lot more fun for big institutions because they can now apply for large clumps of national lottery money.

As so much lottery cash goes on capital projects rather than on running costs, there is a mood of irresponsibility in the air, which encourages the amateur nominees who advise those who allocate lottery money to make the most of the chance to push forward their favourites, and what they consider to be the latest ideas.

Libeskind belongs to a group of architects who came to prominence in 1988 when the Museum of Modern Art in New York mounted an exhibition called *Deconstructivist Architecture*, curated by the king-maker of New York architecture, Philip Johnson. The show was very much about 1980s ideas – of the break-up of culture and about architecture obsessed with fragmentation and instability. It was also a reflection of the boredom with postmodernism that architects like Philip Johnson were feeling, and a sense that there was no longer any point in historical revivalism because most of the craft skills that could have created a convincing revival had died. Above all, it was about inventing a new architectural style.

The eight architects in the New York exhibition were mostly pretty well known: Bernard Tschumi, Peter Eisenman, Frank Gehry, Rem Koolhaus, Zaha Hadid, Danny Libeskind, Wolfgang Prix and Helmut Swiczinsky. They shared several distinctive characteristics. Their work, largely unbuilt, was full of deviations from any known geometrical norm; they despised the right angle and preferred to deviate from all parallels; the planes they employed always looked warped and twisted; and there were always a lot of overlapping trapezoids.

Their designs showed no interest in communicating clear ideas. Indeed, Libeskind's only real fame is for coining the phrase about the importance in architecture of the "void of the void". Although some people find the ideas, such as they are, behind deconstructivism shocking, there is little that is new in it. Architectural ideas usually follow painting, and the Russian Constructivists had thought of most of these ideas much earlier this century. The development of the visual arts in the 20th century has been full of virulent and mocking anti-art ideas that want to wound tradition and explode myth.

Libeskind has not built very much. His largest project has been under construction for a long time: the Jewish wing of the Berlin Museum, which is partly an archive and partly a memorial to the Jews from Berlin killed by the Nazis. Libeskind won the competition to build this in 1988, and construction has taken much longer than anticipated. It may open next year. In plan it is like part of a twisted swastika. It is a highly tormented building which has been described as "a petrified description of a shattered mind".

Deconstructionism is also a literary philosophy that wants to end formal structures in writing and evolve a post-structural way of thinking. In architecture, it is equally destructive and without direction – especially as it has become a stylistic device to attract attention to its disorder and difference rather than an analytical response to a problem.

In London, there is desperate pressure to follow this fashion in the corridors of Arts Council power. It is also fashionable to imply that those who have seen through these old fashioned and wayward ideas are themselves wildly out of date – probably fogeys. But it is too easy to polarise the current architectural debate in this way, and rather sad that commentators are so keen to make it a dialogue between the past and future.

It is a debate about architectural quality and the need to move on from empty nihilistic styles and theories. I suppose it is too much to expect museum trustees to be deeply versed in architectural thinking, but at the V&A one hoped for more wisdom and knowledge and less enthusiasm for pointless trends.

ARTS

OPENINGS

BIELEFELD
Contemporary British opera is currently having a good run in Germany. Harrison Birtwistle's "The Second Mrs Kong" has just been staged in Heidelberg, Mark-Anthony Turnage's "Greek" turns up in Leipzig next week and Thomas Adès's "Powder Her Face" will be performed next season in Magdeburg. This week is the turn of Judith Weir (left), whose "Blonde Eckbert" – premiered by English National Opera in 1994 – is being produced by the enterprising municipal theatre at Bielefeld. The first night is on Saturday.

DROTTNINGHOLM
This is Elisabeth Söderström's final season as festival director at the Drottningholm court theatre in Sweden. The programme opens on Saturday with a Pergolesi double-bill, followed on June 7 by a revival of last summer's successful English-language staging of Philidor's "Tom Jones". Later in the season there will be a new production of Gluck's "Orphée", a programme of three Swedish ballets from the 1790s, and a series of recitals by Anne Sofie von Otter (above).

LONDON
The outstanding American singer Kim Criswell (right), seen here four years ago in "Annie Gets Your Gun", returns to London in a new but old-style musical, "Dames at Sea," which opens tomorrow for a two-week season at the Ambassadors Theatre. John Gardyne directs; the cast also includes Peter Duncan and Sara Crowe.

The Open Air season at Regent's Park opens tonight with "The Comedy of Errors". Ian Talbot directs.

HANOI
The Russian cellist Mstislav Rostropovich is to give two evening recitals in Vietnam this week, the first on Thurday at the vast Vietnam-Soviet Cultural Palace in Hanoi and the second on Friday at the former Opera House in Ho Chi Minh City, formerly Saigon. The Hanoi venue seats 1,000 and the concert will be relayed on to a huge video screen outside the palace. The programmes include works by Beethoven and Shostakovitch.

PHILADELPHIA
After its hugely successful runs in Paris and London, the Cézanne exhibition crosses the Atlantic for a showing at the Philadelphia Museum of Art. It opens on Thursday and runs till August 18.

MILAN
La Scala's new production of Wagner's "Ring", conducted by Riccardo Muti (below) and staged by Endre Engel, began last season with "Die Walküre". Now they turn to the first part of the tetralogy, "Das Rheingold". Monte Pederson and Falk Struckmann will alternate as Wotan, and the cast also includes Kim Begley. The first night is on Thursday.

Melody maker

Andrew Clark talks to the acceptable voice of modern music, composer Nicholas Maw

In a leafy suburb of Washington DC, the English composer Nicholas Maw is pouring himself a lunchtime glass of wine and recalling how an American colleague recently summarised his music. What Maw was trying to do, the colleague said, was find another way forward from the late-19th century – a different path to what we bracket today as 20th-century music.

"I think it's a good description," says Maw, who has lived in the US since 1984. "I've discounted much of what has happened in the past 90 years. I'm not being reactionary – it's more a question of 'reculer pour mieux sauter'. I can point to things in my music, such as ways of using harmony and particular kinds of melodic formulations, that are just as novel as the so-called avant-garde. If you look at my work as a whole, what I've been doing is as genuine and forward-looking as anything."

Avuncular, articulate and a robust advocate of musical tradition, Maw hardly fits the stereotype of the contemporary composer. Too tuneful to be avant-garde, too serious to be populist, his works fit comfortably into mainstream concert programmes. He has mastered a wide variety of musical forms, from comic operas and string quartets to the 96-minute *Odyssey* – the longest continuous orchestral work ever written. He also has that rare distinction of being able to generate enthusiasm among occasional concert-goers *and* high-profile conductors. In short, Maw is the acceptable voice of modern music.

Six months after his 60th birthday, Maw is on the crest of a wave. In the US his music is being played from New York to San Francisco. Over the next two weeks André Previn and the London Symphony Orchestra take his *Spring Music* on tour to Germany and Austria. He has just completed *Hymnus* for the centenary of the Oxford Bach Choir, to be premiered at the Sheldonian Theatre on Saturday, and in August his Violin Concerto will be heard at the Proms.

Having championed the art of flowing melodic lines, rich harmonies and classical forms when it was unfashionable to do so, Maw has had the satisfaction of seeing the musical world come round to his point of view. Back in the 1950s and 1960s, when serialism and pointilliste textures were all the rage, the young Maw dared to disagree. His *Scenes and Arias*, premiered at the 1962 Proms, announced a musical personality to which he has remained true ever since: a backward-looking appeal harnessed to undimmed compositional rigour. Unlike his beknighted contemporaries, Peter Maxwell Davies and Harrison Birtwistle, Maw has received no official award. But his music has been circulated just as widely, and will probably last longer.

Moving to the US has turned out to be one of the best things Maw ever did. Free of the distractions of musical life in London, he has been able to concentrate and is far more productive as a result. But Maw's links with Europe remain strong. He receives a steady stream of commissions from the UK, and spends up to three months a year at his house in France.

He is accused by some contemporaries of following the soft option, of "copping out" in the quest to advance the boundaries of music. Maw will have none of it. He says much of what has happened in the postwar era has resulted in a narrowing of musical vocabulary, and cites Pierre Boulez as the classic example.

"There are very few things you can do with a language like that. One could characterise the Boulez-era pieces as sculptural: they're not pieces you move through, they're pieces you walk around. We're talking here about timbre and acoustics, and setting up a column of sound which refracts the light – you can only talk about it in visual terms. These pieces have a lot of intellectual interest, but they exist only in the moment, they have no relation to what is going on around them, or to musical tradition. You have to leave your memory at the box-office, and without memory the imagination cannot work."

So what does Maw's music represent? One of its chief characteristics is an unashamed concern for melody and rhythm. Maw has never made any secret of his belief in singing and dancing as the bedrock of musical experience, so it was natural that his first concerto should have been for violin – the most songful of instruments. Premiered by Joshua Bell in New York and London in 1993, it is a beautiful and boldly contrasted piece, a worthy successor to the Brahms and Walton concertos. Maw describes it as central to his output "because it's concerned with the whole question of melody – melodic lines which are immediately apprehendable as such, which lodge in the mind of the listener."

Maw also has an uncanny ability to evoke other idioms without overwhelming his own style. *Scenes and Arias* and *The World in the Evening*, for example, elide French and German late Romanticism with a Britten-like expressive clarity. His aim, he says, is to reflect "things that people know and things they don't know, which is precisely what happened in all art of the past. I want to be able to do *in my own way* things that were always done before in music, by the whole of western musical tradition. It's only in the 20th century that we've had the arrogance to assume we can turn all this on its head."

But the most consistent trait in Maw's music is its sense of internal narrative, paragraphed in such a way that the listener can plot its progress. *Odyssey*, which took more than 15 years to write and has been recorded by Simon Rattle, is the outstanding example. It has a sense of scale and proportion, of the long breath, of development and resolution – all qualities one expects of a symphony. So why is it not called a symphony?

"The only answer I can give," says Maw, "is that it has so many features bound up with my own psychology, the way I saw it as a journey, that I couldn't think of it in more abstract terms. At the beginning of the piece there's a strong sense of searching – my own searching, the listener searching, the piece itself searching. As it goes along there's a stronger definition of where it's going. At the end I had a much clearer sense of who I was. I'd wrestled with it for so long. I had a terrible time getting it organised. It was a bit like building the Forth Bridge: if you didn't get that girder right in the middle, the whole thing would collapse into the sea."

Quoting Brahms's remark about the burden of hearing Beethoven tramping behind, Maw says a symphony ranks as a major statement, "and I feel as if I put all my eggs in one basket with *Odyssey*". Like Ravel, Strauss and Bartók, he has found greater freedom in other forms, "and I actually think a lot of the symphonies of the postwar era – those of Fricker and Rawsthorne, for example – are not very impressive objects. Even some of my contemporaries, like Henze and Maxwell Davies, have written symphonies which I don't regard as symphonic. If you're going to write a symphony today, there must be a damn good reason for doing it – other than just fulfilling a commission. You know Stravinsky's remark? He said commissioning symphonies had become a bit like going to the supermarket to buy a bag of flour."

But after several false starts, Maw is still interested in writing opera. He demonstrated his skill for the genre with *The Rising of the Moon*, a bitter-sweet comedy premiered at Glyndebourne in 1970. His publishers are currently negotiating the rights to a novel by a living American author, from which Maw wants to extract a libretto. All he will say is that it is a serious 20th-century subject, "on a universal theme". Maw sees the project as the next big step in his musical odyssey. Like its predecessors, it should be worth the wait.

Ballet/Clement Crisp

Timeless steps

Balanchine's *Agon* will be 40 years old next year, and it is the most modern ballet in the world. Stripped of everything save dance itself, with that dance as much part of Stravinsky's score as the orchestration, it is 20th-century ballet's monument, a structure having perfect logic and inevitability in showing the continued potential of classical movement.

It is a key to the ballet of our century. Like its score, it is a culmination of an historical/artistic process. Stravinsky looked back to dance forms of the 17th century for musical example. Balanchine's choreography looks at the developed manner of Petipa's classicism – of trios, duet, ensemble, of attitudes and formal devices – and, like Stravinsky, renews and reshapes them. *Agon* is time travel, shuttling between the ages, eliding them, reconciling them. And, to bring matters up to date, it received a grand performance from Birmingham Royal Ballet's cast last Thursday.

After the dimness of the opening programme of BRB's Covent Garden season (and especially after the company's account of Balanchine's *Theme and Variations*, which opened Thursday's triple bill and looked like something from the wards at Scutari) this *Agon* was dazzling. Clarity – muscular as well as musical – and that integrity of manner which finds the dancer right inside the dance rather than looking hopefully at it and wondering what is to be done (which was how Sabrina Lenzi and Kevin O'Hare muffed the leading roles in *Theme and Variations*) meant that every moment of *Agon* was true.

All honour to Karen Waldie, Jessica Clarke, Monica Zamora, and Simone Clarke, to David Justin, Joseph Cipolla, Robert Parker and Chi Cao, who were the soloists, and to the quartet of women. They danced superbly. The great pas de deux had a fine erotic charge – Cipolla broods, manoeuvres the beautiful Zamora with passionate intensity – and the two trios were impeccable. (I salute Chi Cao for the lift and clarity of his dancing.) No less a hero (and the only hero of *Theme and Variations*) was Leslie B. Dunner, who inspired a taut, Stravinskian reading of *Agon*, and alone maintained the physical as well as orchestral tensions of Tchaikovsky's score for *Theme*.

The evening also included David Bintley's *Still Life at the Penguin Cafe*. I am told this is a popular work. I find it insupportable. With its feeble score and relentless scampering, its arch way with ecological correctness, it is a flag day for charities to which I refuse to contribute.

Theatre/Sarah Hemming

Beast on the Moon

It is not radical, experimental or challenging, but there is something very appealing about Richard Kalinoski's play at BAC in Battersea. Basically, Kalinoski tells a halting love story between two people who have a harrowing past in common, but he draws you into their lives so gently, and the central performances are so engaging, that one really cares about what happens.

Set in Wisconsin, the play opens in 1921 as Aram Tomasian is introducing his new bride to her apartment. But Aram and Seta are no ordinary bride and groom: as Armenian refugees they have both lost an entire family to the Turkish massacres of 1915. Aram has brought Seta over to America as his "picture bride", so rescuing her from an orphanage. She arrives, clutching a rag doll, to be faced with a not unkind, but stern, Bible-reading man, who quotes Timothy to impress upon her the duties of a wife. She soon learns that he expects her to replace the murdered family whose photo he keeps, their heads cut out to leave spaces for those of their own children.

Aram's plan is thwarted, however, by the barrenness Seta's own gruesome past has inflicted on her. The play returns every few years to see their progress, as grief drives them first apart and then together. The play has a pleasing symmetry, but is rather stiff and mawkish in places and is not improved by a narrator figure (Nicholas Amer).

Otherwise, this quiet, lovingly detailed production by Irina Brook (the daughter of Peter Brook, making her directing debut) elicits tremendously engaging performances from Simon Abkarian as the proud, hurt and gradually thawing Aram and Corinne Jaber as the lovely, mercurial and gradually maturing Seta. *A touching evening.*

BAC, Battersea, London SW1 until June 2 (0171 223 2223).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

ART & ANTIQUE FAIR
RAI Congrescentrum
Tel: 31-20-6448651
● KUNSTRAI 96: annual fair for modern and contemporary art. On this year's fair 145 art dealers are represented; *from* May 28 to Jun 2
CONCERT
Concertgebouw
Tel: 31-20-5730573
● Il Rè Pastore: by Mozart. Concert performance conducted by Peter Neumann and performed by the Collegium Cartusianum. Soloists include tenors Cristoph Prégardien and Markus Schäfer and sopranos Sandrine Piau, Sibylla Rubens and *Mechtild Bach; 8.15pm;* May 28

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Berliner Singakademie: and the Ensemble Oriol with conductor *Achim Zimmermann perform* works by Beethoven, Zelter and Reichardt. Soloists include soprano Alexandra von der Weth, alto Carolin *Masur* and tenor Frieder Lang; 8... 29
Philharmonie & Kammer...
Tel: 49-30-2614383
● Philharmonischen Bläser... with *pianist Stephen Hough* ... works by Danzi, Jolivet and ...
8pm; May 29
OPERA
Komische Oper Tel: 49-30-202...
● Don Giovanni: by Mozart. Conducted by Müller and perform... by the Komische Oper. Soloists include Smeets, Rabsilber, Vogel and Grabowski; 7pm; May 29, 30

■ BONN

DANCE
Oper der Stadt Bonn
Tel: 49-228-7281
● Ein Sommernachtstraum: choreography by Yuri Vàmos to music by Mendelssohn, performed by the Ballett *Bonn; 8pm;* May 30

■ CAMBRIDGE

EXHIBITION
Fitzwilliam Museum
Tel: 44-1223-332900
● Burne-Jones and William Morris: Illustrations for the Kelmscott Chauser and the Aeneid: exhibition of pencil drawings produced by Sir Edward Burne-Jones for William Morris' illustrated books; to Sep 1

■ COLOGNE

CONCERT
Kölner Philharmonie
Tel: 49-221-2040820
● Camerata Academica Salzburg: with conductor Sándor Végh perform works by Schubert and *Haydn; 8pm; May 30*

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■ ...GEN

... a choreography by ... MacMillan to music by ...assenet, *performed by The Royal* Ballet; 8pm; May 28

■ HAMBURG

OPERA
Hamburgische Staatsoper
Tel: 49-40-351721
● Die Entführung aus dem Serail: by Mozart. Conducted by Bernhard Klee and performed by the Hamburg Oper. *Soloists include* Ulrich Wildgruber and Maureen O'Flynn; 7pm; May 28, 30

■ LEIPZIG

CONCERT
Gewandhaus zu Leipzig
Tel: 49-341-12700
● Gewandhausorchester: with conductor Ingo Metzmacher, pianist Donohoe and soprano R. Ziesak perform works by Henze and Mahler; 8pm; May 30, 31

■ LONDON

CONCERT
Purcell Room Tel: 44-171-9604242
● Homage to Laurindo Almeida: concert by guitarists Carlos Barbosa-Lima and Charlie Byrd devoted to the Brazilian performer, composer and arranger Laurindo Almeida; 7.30pm; May 28
EXHIBITION
Design Museum
Tel: 44-171-3786055
● Conran *Foundation Collection:* this exhibition presents items from current design selected by Alice Rawsthorn, a journalist for the Financial Times and a Trustee of the Design Museum. Including furniture, packaging and clothes; to Jun 23
THEATRE
Barbican Theatre
Tel: 44-171-6388891
● Romeo and Juliet: by Shakespeare. *Directed by Adrian* Noble and performed by the Royal Shakespeare Company. The cast includes Christopher Benjamin, Susan Brown, Julian Glover and Michael Gould; 7.15pm; May 29

■ LOS ANGELES

EXHIBITION
Norton Simon Museum of Art
Tel: 1-818-449-6840
● The New Wave: Bonnard, Toulouse-Lautrec and Vuillard and the French Color Print: exhibition of 38 color lithographs by the 19th-century avant-garde painters/printmakers Pierre Bonnard, Henri Toulouse-Lautrec and Edouard Vuillard; to Jul 21

■ NEW YORK

EXHIBITION
The Metropolitan Museum of Art
Tel: 1-212-879-5500
● Genoese Drawings and Prints: exhibition showing a selection of approximately 110 drawings and prints by Genoese artists of the 16th to 18th century, with particular emphasis upon the innovative work of Giovanni Benedetto Castiglione; *to Jul 7*

■ OSLO

OPERA
Norske Opera Tel: 47-22-429475
● Madama Butterfly: by Puccini. Conducted by Shao-Chia Lü and performed by the Norwegian National Opera. Soloists include Ragnhild Heiland Sorensen, *Ingebjorg Kosmo, Ivar Gilhuus and* Trond Halstein Moe; 7.30pm; May 28

■ PARIS

CONCERT
Salle Pleyel Tel: 33-1 45 61 53 00
● Das Lied von der Erde: by Mahler. Performed by the Ensemble Orchestral de Paris with conductor Armin Jordan, *mezzo-soprano* Hedwig Fassbaender and tenor James Wagner; 8.30pm; May 28
EXHIBITION
Galeries Nationales du Grand Palais Tel: 33-1 44 13 17 17
● Les années romantiques 1815-1850: exhibition of some 180 paintings and watercolours by French artists, created between 1815 and 1850; to Jul 15

■ ROME

OPERA
Teatro dell' Opera di Roma
Tel: 39-6-481601
● *La Sonnambula:* by Bellini. Conducted by Patrick Fournillier and performed by the Opera di Roma. Soloists include Kathleen Cassello, Bruce Ford and Roberto Scandiuzzi; 8.30pm; May 28

■ SYDNEY

CONCERT
Concert Hall Tel: 61-2-250-7111
● The Australian Philharmonic Orchestra: with conductor Gerhard *Track, soprano Olga Savina, tenor* Kenneth Collins and The Vienna Male Choir perform works by Stolz, Lehár, Kalman and Schubert; 7.30pm; May 28

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Till Fellner: the pianist performs works by J.S. Bach, Webern and Liszt; 7.30pm; May 28
Musikverein Tel: 43-1-5058681
● Ernst Kovacic: the violinist performs works by J.S. Bach and *Einem; 7.30pm; May 28*

■ WASHINGTON

EXHIBITION
National Portrait Gallery
Tel: 1-202-357-1915
● Rebels: Painters and Poets of the *1950s: two-part exhibition that* examines the revolutions in painting and poetry that took place on the East and West Coasts following the second world war; to Jun 2

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09.00
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Martin Wolf

Korea's German lesson

Successful reform of the North Korean regime would be better for political stability and economic growth in the South than its sudden and complete collapse

At the limits of Stalin's vast empire lay two divided countries. The one in the west, Germany, was the dismembered remains of Hitler's Third Reich. The one in the east, Korea, was the innocent victim of Stalin's declaration of war on Japan at the end of the second world war. Germany is now re-united. With North Korea in a parlous state, South Koreans might expect a similarly swift end to the division of their ancient country. But should they also hope for it? The answer, alas, is no.

Most of the attention devoted to Korea's divided peninsula in recent years has focused, rightly, on the threat posed by a nuclear-armed North. There has already been one brutal war between the two parts of divided Korea. An economically failing, heavily armed totalitarian state might prefer to go down fighting, rather than go quietly. But the security threat must not be viewed in isolation. North Korea's economic failure largely explains its threatening behaviour. It also renders its complete collapse conceivable, a collapse that could, in turn, destabilise South Korea.

Professor Paul Krugman of Stanford University has argued that the success of east Asian economies can be compared to the erstwhile progress of the Soviet Union – an example of government-promoted capital accumulation. The contrast between North and South Korea destroys this argument. True to Soviet principles, the North has kept its people poor and enslaved. Outward-looking and capitalist, the South has become prosperous and increasingly free.

Over the past 40 years, the fault-line running between South Korea and the territory of the communist god-kings has become a chasm. Data on North Korea are state secrets. What there are suggest gross domestic product per head, at market prices, might be around 10 per cent, and trade around 1 per cent, of South Korean levels. The negligible trade might be defended as a natural consequence of the emphasis on *juche*, or self-reliance. Yet self-reliant North Korea is not. It is even unable to feed itself without substantial foreign aid.

Economic growth in South Korea has averaged about 9 per cent a year since 1962, multiplying GDP some 17 times. Poorer than Ghana a generation ago, it is now the world's 11th largest trading power and stands on the verge of becoming a high-income country, with GDP per head at US$10,200 last year. As for the North, it languishes at about the level of Egypt.

It is the combination of this vast gap in standards of living – far bigger than between the two Germanies – with the relatively larger northern population, that makes the prospect of sudden unification so daunting. West Germany has had to transfer about 5 per cent of its annual GDP to the east. If South Korea were to be confronted with a comparable collapse and make similar policy mistakes, it could finish up with a transfer burden of 10-15 per cent of GDP. That would be both a political impossibility and an economic disaster.

Fortunately, South Korea has some advantages over west Germany in managing rapid unification. Public spending can be increased more easily, because it is only a little over 30 per cent of GDP; it has full employment; and the money required to sustain north Koreans at their current standards of living would be modest, because they are so poor. Against this, South Korea has half the income per head of west Germany; has had greater difficulty in maintaining monetary stability; and is still only a fledgling democracy.

What would happen if North Korea collapsed? To answer this question, one must focus on the differences between the reform of all former centrally planned economies and the merger of two parts of a divided country. There are three main differences, two economic and one political.

- First, institutional reform and macroeconomic stabilisation can be secured by importing both from the successful capitalist economy.
- Second, the two labour markets will merge.
- Third, politics will be shared.

The government-funded Korea Development Institute has, in typically thorough Korean fashion, tried to learn from the German experience. One result was a conference of German and Korean economists, from whose proceedings it becomes clear that the second – the integration of the two labour markets – creates the fundamental difficulty.*

It was the speedy wage equalisation between east and west Germany, despite the persistent gap in productivity, that turned the initial collapse in output into a long-term disaster. Heiner Flassbeck and Gustav Horn of the German Institute for Economic Research (DIW) in Berlin, argue that five years after unification, the problem remains how to bring earned incomes into line with productivity. With the share of wages in east German national income 90 per cent, rather than the 70 per cent of west Germany, self-sustaining growth is yet to be achieved. It may never be.

Could Korea avoid the same disaster? There are two alternatives to the west German outcome. The first would be to prevent the integration of the labour markets, by controlling movement of people between the two parts of the reunited country. For a democracy, this would be extraordinarily difficult. South Korea is hardly going to shoot people as they cross the former border.

The second possibility would be to let the two labour markets unify and wages move toward market clearing levels. The biggest problem is what would happen in South Korea. Unification would lower incomes per head in united Korea, vis à vis those in South Korea, by up to a third. But the market clearing wage for unskilled labour in the South could plummet by over a half, the precise extent depending on the scale of the labour and capital mobility.

Given the strength of South Korea's trade unions, resistance to this downward pressure would also be intense. It was in order to prevent anything like this from happening that German unions drove up wages in east Germany, thereby forcing taxpayers to bear the costs of unemployment. For the same reason, South Koreans might also have to pay higher taxes to subsidise North Koreans to stay where they are. The conclusion is simple enough. Shock integration of the labour markets would create huge economic pressures and might well impose intolerable costs on the South.

The only attractive alternative would be for the North to continue in existence, while engaging in radical reforms that offer the chance of income convergence in the long run. Unfortunately, there are at least two serious difficulties with this scenario. The first is that the leaders of the North have shown no interest in it. This might not be just a reflection of their obstinacy. North Korea has no raison d'être, shorn of its ideology.

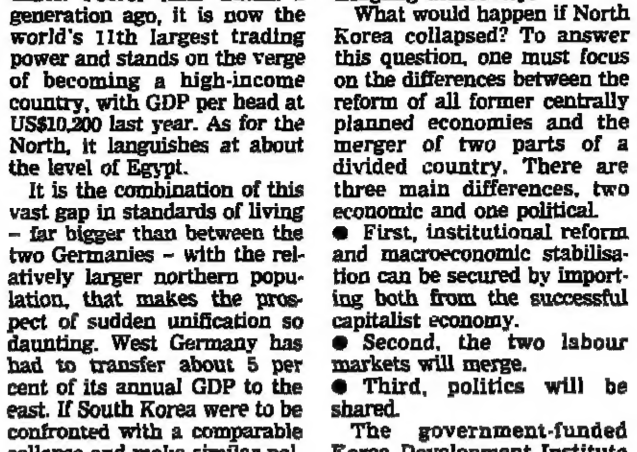
The second difficulty is that for the North to catch up with South Korea would as easy as for a bicycle to catch up with an express train. At an initial income ratio of, say, 10 per cent, it would take more than half a century to achieve 80 per cent of South Korea's income per head, even if the North managed to grow faster by four percentage points a year. To achieve that, North Korea would have to become an astoundingly successful economy, from what is a dreadful starting position.

The South is almost completely at the mercy of events. But it must avoid falling into the German trap, whatever happens. That means controlling movement between the two labour markets, while encouraging capital flows to the North, until a substantial degree of convergence in output per head is achieved.

The most effective way to achieve this would be for the North to survive as a separate entity under Southern tutelage. Unfortunately for the South, it has no means to ensure this will happen, even if could admit that this *is* what it wants. The irony is that however badly the South may want to see the end of a regime it justly loathes, among the more damaging things the North can now do to the South is simply to turn over and die.

* *Economic Consequences of German Unification and its Policy Implication for Korea, Korea Development Institute, Seoul, March 1996.*

Why the cost of Korean unification would be high



Source: IMF; WTO. National Unification Board, South Korea
* Data for North Korea are approx. ** Exports plus imports

Alice Rawsthorn on how the risky signing of a pop star paid off

Older, wiser and much, much richer

Signing a star is always risky for a record label, but the odds were particularly high against the success of last summer's deal under which Virgin Music and DreamWorks paid $55m (£36m) for George Michael.

At 32, he was one of the most successful singers of the 1980s, first with Wham! and then as a solo artist. But he had not released an album for five years, an aeon in the fickle music market. He was also known as a brooding, brilliant perfectionist who refused to record for Sony, his old label, after losing a $3.5m court case to sever his contract.

Virgin and DreamWorks bought him out of that contract for $45m, and gave him a $10m advance, gambling that he could be rehabilitated as a superstar. Their judgment was put to the test when *Older*, his new album, went on sale two weeks ago. It has since become one of 1996's fastest-selling albums, going to number one in 13 countries with sales of 2.5m worldwide.

Older now seems set to sell a total of 10m copies, but it might easily have flopped. George Michael had been virtually invisible since the release of his last album, *Listen Without Prejudice*, in 1990 and the $40bn global music market had since changed dramatically. Rap and grunge swamped the US charts, as did dance and Britpop in Europe, while the Chinese stars, Dadawa and Jacky Cheung, supplanted Anglo-Saxon acts in the expanding Asian market.

When *Listen Without Prejudice* came out George Michael was so anxious to shed his Wham! teen idol image that he refused to be photographed for the cover, or to appear in videos. It sold 7m copies, against 15m for its 1987 predecessor, *Faith*, and he sued Sony claiming that it had not supported his attempts to nurture a more mature image.

The court case was widely publicised in the UK where the tabloid press, having ridiculed the spectacle of a millionaire pop idol complaining about "not being taken seriously", recast him as a perennial British favourite, the principled underdog. But the case received little coverage in other countries and George Michael faded from view.

George Michael: happy with response to his latest album

Ideally, record labels like their stars to release new albums at least every three years. George Michael not only left five-and-a-half years between albums, but he refused to give media interviews, or to perform live to promote *Older*.

Virgin and DreamWorks wanted him to do the usual promotional schedule. But after his problems with Sony, George Michael insisted on having the final say over business matters. He also ignored their warnings that *Older* was too gloomy a title, and flouted conventional wisdom by releasing two singles, rather than one, before the album, the dreamy *Like Jesus To A Child* and upbeat *Fast Love*.

"We knew when we signed George that he'd have very strong ideas," says Ray Cooper, deputy managing director of Virgin. "Some of his concepts aren't ones that we'd have come up with, but they make sense once he explains them. And they've worked."

Both *Jesus* and *Fast Love* were number one in 16 countries. However the marketing costs for singles are so high, that the labels will barely break even on them and regard them as promotional vehicles for the album.

Older received rave reviews, not least from New Musical Express, the feisty British weekly to which the ever-sensitive George Michael refused to send a review copy. NME bought its own and rated it nine out of 10.

If *Older* fulfils its promise of selling 10m copies, George Michael should make roughly £17m on his royalties of 20 per cent of the wholesale price minus his share of marketing costs. Virgin and DreamWorks will also make a profit, but only a modest one. This is partly because their marketing investment will be so high but mainly because labels rarely make money from superstars with 20 per cent royalties. They sign them for prestige, to have more clout with retailers and to attract other acts.

DreamWorks signed George Michael for north America because it is a new label and David Geffen, its billionaire founder, needed a superstar to launch it. Analysts suspect that Virgin signed him for the rest of the world to attract bidders after it is demerged, together with the rest of EMI Music, from Thorn EMI, the UK leisure group, this summer.

Ironically one of the beneficiaries of *Older* will be Sony, which under last summer's deal should collect about £2.5m from its 3 per cent royalty on George Michael's sales. However its former court opponent seems unperturbed. George Michael is said to be so happy with the response to *Older* that he is considering an autumn tour, possibly even giving free concerts to "thank" his fans.

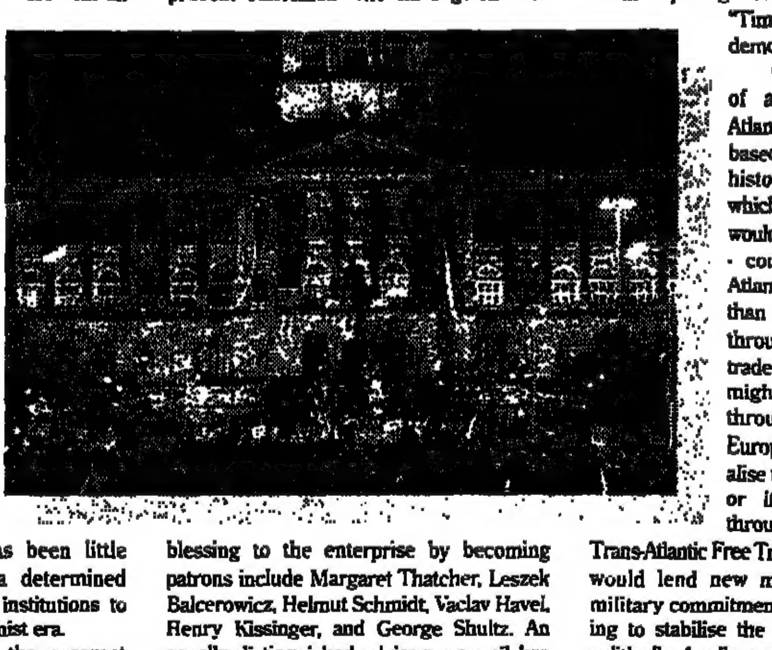
New Life for the Atlantic Relationship

BY GERALD FROST

Intellectual, business and political leaders from the U.S. and Europe have launched the New Atlantic Initiative. The research director for the group argues that only a revitalised Atlantic Relationship can fulfil the hopes raised by the end of the Cold War.

Five years have now passed since the Soviet collapse provided the West with an historic opportunity to mould the approaching millennium in its own political and economic image. But there are worrying signs that it is proving less able to deal with the consequences of its success in opposing Soviet communism than it was in dealing with the conditions of Cold War adversity.

Instead of seizing the opportunity to strengthen and promote market democracy, it has shown itself prone to introspection and self-absorption. Policy has been characterised by drift and expediency at a moment in history when there has been little standing in the way of a determined approach to adapt Western institutions to the needs of the post-communist era.



Most telling has been the apparent reluctance to perform a task which Margaret Thatcher described as "so obvious and achievable to count as an explicit duty laid down by History" - the speedy incorporation of the Central European democracies into the West's economic and political structures.

The inability of Western states to impose their authority upon the emerging pattern of international affairs has recently caused President Vaclav Havel to complain of "a mentality marked by caution, hesitation, delayed decision-making and a tendency to look for the most convenient solutions." Whatever its causes, the consequences are clear: market reforms in former communist countries are being slowed or reversed. A particularly foul and bitter war in former Yugoslavia was prolonged and exacerbated. In Russia, the communists won 45 per cent of the votes in the December elections to the Duma.

Against this background, an ad hoc group of scholars, writers, business leaders and ex-public servants from a dozen countries has launched the New Atlantic Initiative. Its purpose is to stress the huge potential benefits - in economic as well as in political and security terms - of rebuilding an enlarged, secure and outward-looking Atlantic community in the light of recent changes. The distinguished past and present statesmen who have given their blessing to the enterprise by becoming patrons include Margaret Thatcher, Leszek Balcerowicz, Helmut Schmidt, Vaclav Havel, Henry Kissinger, and George Shultz. An equally distinguished advisory council has helped shape its plans.

Its first public event - the Congress of Prague, attended by more than 300 political and business leaders and intellectuals on May 10-12, 1996 - concluded with a statement of Atlantic principles: a robust and unapologetic expression of belief in individual liberty, the market economy and democratic pluralism. The practical aim is the creation of a new Atlantic movement dedicated to the aim of halting and reversing the political trends that have resulted in Europe and America drawing apart, and of redefining Atlanticism.

What was apparent in Prague - both from the debate and from the reports of specialist policy committees presented to the Congress - was a widespread conviction among participants that a combination of missed opportunities and the emergence of daunting new problems has raised the stakes of Atlantic co-operation immeasurably.

Failure to adapt the institutions of Western co-operation - and where necessary to devise new ones - in order to deal with these would be likely to heighten political instability, diminish the West's capacity to respond to emerging military threats, while increasing the dangers of fragmentation to the world's trading system. In Central and Eastern Europe, as President Havel warned in the opening address of the Congress, "Time is working against the democrats."

Conversely, the creation of a larger and secure Atlantic Community entity, based on values and shared historical experience - in which the Central Europeans would be fully accommodated - could ignite a burst of Atlantic prosperity greater than any for half a century through the stimulation of trade and competition. This might be accomplished through a major US-European initiative to liberalise trade through the WTO, or if this were to fail, through the creation of a Trans-Atlantic Free Trade Area. Such a project would lend new meaning to America's military commitment to Europe while helping to stabilise the still economically and politically fragile new members. It would also provide a unifying purpose, enabling a new, confident Alliance of free nations to claim the new millennium as their own.

Gerald Frost is the Research Director of the New Atlantic Initiative, c/o CNE, Roularta Media Building, Research Park Zellik, B-1731 Zellik, Belgium.

·LETTERS TO THE EDITOR·

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CBI support for EU good for British business

From Mr Niall FitzGerald.

Sir, Arguing the benefits to business of European Union membership does not make Sir Bryan Nicholson "a frustrated politician", as Sir Owen Green suggested (Letters, May 24).

The benefits to British business of the EU, and the single market in particular, are clear. The EU now accounts for 53 per cent of British trade. And by being a strong voice for liberal international trade in the General Agreement on Tariffs and Trade and the World Trade Organisation – far stronger than Britain alone could ever be – it helps open up business opportunities beyond its borders.

It is not surprising therefore that business support for membership of the Union is overwhelming. As president of the Confederation of British Industry, it was Sir Bryan's job to put that case as clearly and forcefully as necessary. That is not politics, it is good business.

Niall FitzGerald,
vice-chairman,
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From Sir Colin Marshall.

Sir, Sir Owen Green argues that Sir Bryan Nicholson's speech to the Confederation of British Industry's annual dinner means the CBI is straying away from a defence of business issues and into the realms of politics.

Bryan's speech argued strongly for British membership of the European Union and against those who would put that membership at risk. I can think of few issues where business opinion is clearer than EU membership. In our last survey, 90 per cent of businesses said they were against withdrawal. And they hold that opinion not for political reasons, but because of the benefits of the single market. Given that weight of opinion, it would be an odd representative organisation that did not argue the case.

Bryan focused on the economic and business implications of membership, especially the single market, and made constructive comments for improvements. Had he strayed on to, say, justice and home affairs, or foreign and security policy, Sir Owen would have a case. As he stuck to matters of direct and daily relevance to British businesses, I find it hard to see how we can be accused of straying off our patch.

Colin Marshall,
president,
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Regulation good for BAA

From Mr Des Wilson.

Sir, Lex is right ("BAA", May 22). BAA London airports are regulated and regulation is a serious business, but our regulatory regime has proved sound and stable. BAA and its customers are united in the priority they attach to the company being able to invest in a timely way to meet national aviation needs, while achieving some of the lowest landing fees in the world.

The company is currently in the middle of its regular five-year price review which is being conducted on all sides in an orderly, constructive way. The Monopolies and Mergers Commission will report on our activities in the next two months and the Civil Aviation Authority will then make its proposals for the price control formula to apply until 2002. There will then be consultations with airlines before a final decision is made in the autumn.

As for the select committee report, the break-up of the south-east airports has been examined periodically since 1986 and always rejected.

Des Wilson,
director corporate and public affairs,
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London SW1V 1LQ, UK

Advantages of issuing indexed bonds

From Mr P.M.W. Tucker.

Sir, In welcoming the US Treasury's plan to introduce indexed bonds, you suggest that saving debt service costs will depend on whether or not the market is too pessimistic about future inflation ("Questioning bond markets", May 18/19). It is true that an issuer of indexed bonds will save money if inflation turns out *ex post* to be lower than the market expected. But this is only one possible source of lower financing costs. Another is that the issuer does not have to pay any inflation risk premium priced into the conventional bond market on account of inevitable uncertainty about the future course of inflation. That *ex ante* saving of the risk premium does not depend on the issuer taking any particular view about the path of inflation or whether the outlook for nominal bonds is bullish or bearish.

Another, separate advantage of indexed bonds is that they contribute to a reduction in uncertainty about the real cost of borrowing, and so can be regarded as reducing risk for the issuer. These issues and others were discussed at the Bank of England's conference last year on the indexed-linked gilt market. Copies of the background papers are available from the Bank and the proceedings will be published soon.

Paul Tucker,
head of gilt-edged and money markets division,
Bank of England,
London EC2R 8AH, UK

Repercussions of China energy demand

From Matthew Taylor MP.

Sir, In her article "China expected to spur world's energy demand" (May 20), Deborah Hargreaves rightly points out the "big implications for world fuel resources" of a dramatic rise in energy demand in China and Asia as a whole.

What she fails to highlight is the serious repercussions this will have for the global environment, with the dramatic increase in the release of greenhouse gases, and hence global warming. It is imperative that this recognition gives further impetus to efforts in the US and Europe to reduce energy consumption and increase energy efficiency. This is in line with their commitments to reduce CO_2 emissions made at the Earth Summit in Rio de Janeiro, 1992. According to recent projections by the Association for the Conservation of Energy, the EU is currently failing to meet its targets for the reduction of CO_2 emissions by the year 2000 while presiding over a dramatic slowdown in the rate of energy efficiency improvements.

It is currently the case that a mere 20 per cent of the world's population – the developed nations – use 80 per cent of the world's resources. We cannot, and should not, deny nations of the South an opportunity further to develop but we must face up to the potentially catastrophic environmental consequences if we in the developed North do not curb our excessive use of resources while they increase theirs. This is entirely consistent with the maintenance and improvement of existing services and standards of life – government scientists have estimated that 50 per cent of the energy used in the UK could be saved with existing technology alone.

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A timely jolt for Mr Major

Mr John Major might have realised by now the dangers in appeasing the Eurosceptic right of his party. Three Conservative MPs have already resigned from the parliamentary party in protest at the prime minister's willingness to court favours among rightwing colleagues he once described as "bastards". Now, another MP belonging to the One Nation centre has indicated that Mr Major's absurd beef war against the UK's European partners could prompt him to follow suit – a move which would rob the government of its slim parliamentary majority.

There are other signs that the pro-European centre is mobilising its support in the ideological battle for the soul of the Conservative party. Several middle ranking ministers privately voiced alarm yesterday that Mr Major's policy of non-co-operation in Brussels is leading the government into a confrontation it cannot win.

Such ministers have been rightly dismayed by the prime minister's approach. It was their support which ensured his victory in last summer's leadership contest against Mr John Redwood. It is often forgotten that while the right tends to dominate the Tory backbenches, the centre-left holds a far larger share of ministerial posts. But since the leadership contest, Mr Major has seemed more concerned to reward his opponents than to back the judgment of his supporters. Taking a cue from Mr Kenneth Clarke, the chancellor, these ministers should now make it clear to the party whips that there is a point beyond which they will withdraw their support for the government.

There is also a welcome new willingness on the centre-left to raise its voice in the public debate. So far the Eurosceptics have proved themselves better financed, better organised and considerably more ruthless in the pursuit of their objectives. Their influence has been further enhanced by the xenophobic reflexes of sections of the press.

Now, several centrist organisations including the Tory Reform Group, the One Nation, and the Macleod Group plan to co-ordinate their efforts to influence European policy and the general election mainfesto. The claim of the new umbrella grouping, Conservative Mainstream, to the allegiance of over 200 Tory MPs may prove over-optimistic. But anything that gives a stronger voice to pro-European Toryism is to be welcomed.

Mr Major may have naively hoped that he could unite his party under the union flag. Helped by the floundering performace of Mr Tony Blair, the Labour leader, he did secure a few favourable headlines. But for the Eurosceptics the dispute over beef is simply an excuse to imprison Mr Major and to precipitate a deeper crisis in relations with the rest of Europe. The latest developments should provide a timely jolt for the prime minister. He must direct his efforts now to securing an accommodation with his EU partners – before the patience of moderate Conservatism finally snaps.

WTO at sea

Last week's effective US withdrawal from World Trade Organisation talks on freeing maritime transport is regrettable, though hardly a surprise. The talks had long been paralysed by inertia in Washington. At least the US has finally made clear where it stands. But its pull-out raises wider questions about how global liberalisation can best be pursued.

This is the third important WTO negotiation to have stumbled in less than a year. In July, an interim agreement between other WTO members narrowly averted the collapse of financial services talks, after the US refused to guarantee access to its market. Last month, the US balked at a deal on telecommunications.

WTO members may yet assemble a makeshift maritime transport deal, which the US could join later. Once the US presidential election is over, progress may also become easier on financial services and telecommunications. But the record to date hardly encourages optimism. The three WTO negotiations are the first to try to liberalise one sector at a time. It had been hoped that the approach might supplant full-scale trade rounds. In practice, it seems to have made deals harder, by restricting room for compromise.

The US has blamed the outcome of the financial services and telecommunications talks on inadequate liberalisation offers by other, particularly developing, countries. But it is remarkable that the latters' offers were as good as they were, given the nature of the bargain. Few companies in poorer countries want to expand internationally in these industries. Consequently, offers of improved access to industrialised country markets provided little inducement to open their doors to much stronger foreign competitors.

An even bigger flaw of single-sector negotiations has been to make it harder for the US to resist recalcitrant vested interests. That was true in financial services and telecommunications. It has been truer still in maritime services, where US negotiators have been held hostage by a small but energetic union lobby, out to protect obsolete working practices.

In comprehensive trade rounds, such problems can be overcome by trade-offs between sectors, which encourage countries to make "concessions" in some areas in return for "gains" in others. For that reason, governments do not need to satisfy a single producer lobby, but can aim to strike a balance between a wide range of interests.

Less than three years after the end of the Uruguay Round, few WTO members relish the idea of launching another such exercise. Yet the disappointing results of negotiations over the past year make the arguments for doing so increasingly compelling, if the momentum of liberalisation is to be sustained.

Ulster votes

An air of unreality hovers over the election being held in Northern Ireland this Thursday.

The 110-seat "forum" to be elected will wield neither executive nor legislative power. Nor will it draft or adopt the terms of a political settlement. That will be the task of negotiators drawn from its ranks, but selected by political parties, in separate talks due to start on June 10.

Only parties which win seats in the forum may take part in the talks. But that does not mean *all* parties which win seats can do so; still less that all actually will do so. The British and Irish governments have made it clear that Sinn Féin can only take part in the talks if and when the IRA restores its ceasefire on the same terms as in August 1994, which so far it shows no sign of doing. If Sinn Féin does take part the Rev Ian Paisley's Democratic Unionist Party will almost certainly refuse to do so. David Trimble's Ulster Unionists may well follow suit.

Sinn Féin and the Social Democratic and Labour Party – the two main nationalist parties – are both taking part in the election under protest, mainly in order not to be excluded from the talks. Sinn Féin, indeed, seems to be preparing to demand admission to the talks on the strength of its electoral mandate even without a formal IRA ceasefire. But its claim to be distinct from the IRA cannot be taken *seriously* unless it unequivocally calls for the ceasefire to be renewed and condemns any further recourse to violence.

Among various possible outcomes, one absurd but not unimaginable one is that the nationalists, having qualified for the talks, will boycott the forum, while the unionists will sit in the forum but boycott the talks.

The fiercest contest will be within the unionist camp. The election was called largely to soothe unionist feelings when John Major accepted the Mitchell commission's proposal to drop his insistence on decommissioning of IRA weapons before all-party talks could begin. Yet thanks in part to the quirks of the chosen voting system, the ironic consequence could be to push the Ulster Unionists into second place, behind the SDLP, or even third place behind Mr Paisley, which would make the peace process even more difficult.

The artificial nature of the electoral system, however, is less important than whether the exercise opens the door to serious negotiations on the future of the province. And that will depend in large part on whether Sinn Féin/IRA really wants to re-enter constitutional politics.

The continuing wrangle between London and Dublin over decommissioning *should not* obscure the fact that this is the best opportunity republicans will have to influence a *new political* settlement in Northern Ireland. The IRA must seize it and reinstate its ceasefire.

Peace path's deep divide

The Arab-Israeli peacemaking process is at stake as Israel goes to the polls, say **Julian Ozanne** and **David Gardner**

If Israel was any other country the government would be all but certain of victory in tomorrow's elections.

Since taking office four years ago the Labour-led government of prime minister Shimon Peres has pushed hard to reach for peace with Israel's Arab neighbours in an attempt to end half a century of conflict in the Middle East. The evolving peace process has started to break down Israel's diplomatic and economic isolation, not only within the region but in Asia and Africa as well.

This in turn has generated trade and investment flows, which have underpinned an economic performance with which any western government would gladly face its electorate. Although the government is still wrestling with double-digit inflation, growth has averaged 7 per cent a year since 1992, unemployment has been cut from 11 per cent in 1992 to 6.3 per cent last year and Israel has begun to emerge as a strong rival to California's Silicon Valley in high-technology products.

But Israel is not any other country. With the Arab-Israeli peace process at a critical halfway mark, Israel is split down the middle about the risks and rewards of continuing the peace effort, and remains obsessed with its very survival. Peace, security and the threat of terrorism from Islamic fundamentalists have emerged as the dominant issues of the election campaign among almost all voters save Israel's business leaders.

A powerful coalition of industrialists, accounting for almost two-thirds of the country's national output, has unequivocally endorsed Mr Peres and his Labour party, sensing that Israeli companies will always be at a disadvantage in international markets unless Israel wins legitimacy through a comprehensive peace settlement. In this analysis, a policy of "Fortress Israel" would be a disaster for the country's advancing integration into the global economy.

So evenly divided is Israel between the hopeful "peace camp" and the fearful "national camp" that with less than 24 hours to go to the opening of polling stations it is still impossible to predict the outcome of elections that could determine the prospects for Arab-Israeli co-existence into the next century. Polls published yesterday showed Mr Peres leading Mr Benjamin Netanyahu, his rival from the rightwing nationalist Likud, by as little as 2.4 percentage points in the two-man race for the premiership.

For the first time Israelis will directly elect their prime minister casting two ballot papers – one for parliament and the other for the premiership. The new electoral system has forced both prime ministerial candidates to attempt to moderate their policies almost to the point of blandness, making this campaign Israel's dullest.

On the stump both men have tried to steal each others' clothes – Mr Peres stressing security with peace and Mr Netanyahu stressing peace with security. Yet as all Israelis know only too well the choice is between two very different visions of the future and two very different future governments.

A victory for 73-year-old Mr Peres is not a guarantee the peace process will succeed but it is a guarantee that negotiations will continue. In the three years since the September 1993 "Oslo" Israeli-Palestinian accords, Israel has, with great difficulty, completed the easier part of the peace negotiations. It has given the Palestinians self-government in Arab populated areas of the West Bank and Gaza and allowed the emergence of a nascent, democratically elected Palestinian government under PLO leader Yassir Arafat. It has also signed a final peace treaty with Jordan.

But the Labour-led coalition has left the most contentious issues to be decided over the next four years. A comprehensive Arab-Israeli peace embracing Syria and Lebanon will require the withdrawal of Israel from the occupied Golan Heights, a prospect which excites dangerous emotions among Israelis.

A final settlement with the Palestinians will mean Israel granting Palestinian statehood; defining its own borders for the first time; evacuating at least some Jewish settlements on Arab land; and dealing with demands for the return of hundreds of thousands of Palestinian refugees. Most importantly, even though both Mr Peres and Mr Netanyahu categorically rule out handing back occupied Arab east Jerusalem to the Palestinians, no settlement will be possible without a compromise over the holy city.

There will be every opportunity for these negotiations to collapse, and conflict to restart, even with an Israeli partner committed to trying for peace. Mr Netanyahu has promised to renew construction of Jewish settlements on Palestinian land and pour Israeli troops back into the West Bank, tightening the security noose around Palestinian pockets of autonomy. He has also equivocated on whether he is even willing to deal with Mr Arafat and his elected government.

Although Mr Arafat has prudently refused to take a public stand on the electoral outcome, many of his senior officials say privately that a Likud victory would be a disaster which would lead to a new Palestinian uprising.

On the Syrian front, Mr Netanyahu has ruled out territorial concessions on the Golan Heights. He does not recognise that Mr Assad's regime would have trouble surviving the surrender of a square inch of Syria's sovereign territory.

The Likud leader says the problem is that Labour under a weak leader has unrealistically raised Arab expectations. Under his strong leadership, by contrast, they will quickly moderate their demands.

The fact that Mr Netanyahu can still appeal to voters as a man more capable of winning peace than Mr Peres is a sign that many Israelis share this delusion about the Arab world. Polls show that a consistent majority of Israelis, around 60-65 per cent, support making peace. A substantial number of voters must therefore believe Mr Netanyahu when he suggests that peace and security can be imposed rather than negotiated by equal partners.

Despite both candidates' attempt to move into the political centre during the campaign to win the floating vote, most Israelis know the two candidates present a clear difference about the future course of Middle East peace. But whoever wins will have to negotiate complex coalitions. Polls suggest both the rightwing Likud bloc and the Labour party will lose seats to smaller parties based on religious, ethnic or single issues.

The current government is made up of Labour and the leftwing Meretz party but has had to rely on Arab parties and two rightwing mavericks to ensure a parliamentary majority of at least 61 in the 120-member Knesset (parliament). Latest polls suggest Mr Peres may have to take into his coalition small parties, including one which is campaigning to keep the Golan Heights under Israeli control.

If Mr Netanyahu wins he will find it easier to form a coalition with the religious parties but will find it hard to resist being pushed further to the right, not only by them, but also by ultra-nationalists in his own bloc. Men like Ariel Sharon, the Likud defence minister behind the 1982 invasion of Lebanon, and former army chief Rafael Eitan will demand a rapid return to expansion of Jewish settlements in Palestinian territories, the one issue which unites the right.

The almost equal division between Mr Netanyahu's national ist camp and Mr Peres and the "peace camp" is also a division between pessimism and fear on the one side and optimism and hope on the other.

Around half the country remains deeply suspicious about all Arabs, fearful of attack, and terrified by the spectre of further terrorism.

In the only campaign debate between the two candidates for prime minister on Sunday night Mr Netanyahu hammered away at these fears. He painted a picture of Israelis afraid to get up in the morning, catch buses or go to the shopping mall, or indeed linger in any public place because of the threat of bombs. "The security policy of Mr Peres has brought Israel to the brink of destruction," he said. "The whole country lives in fear."

Mr Peres and his supporters believe with equal force the country has a unique historic opportunity.

Tomorrow Israeli voters will decide whether to give Mr Peres four more years to complete his optimistic vision of the future or back Mr Netanyahu's pessimistic return to the past.

"There is a single question that will determine the outcome of the Election 96: How many Jews are afraid of ghosts?," wrote Mr Ze'ev Chafets, a columnist on the *Jerusalem Report* magazine. "This is not a political debate between liberals and conservatives. It is an epistemological dispute between rationalists and irrationalists."

"For the rationalist this is a time of great opportunity ... For the irrationalist, on the other hand, this is the moment of maximum danger."

Internationally, the elections could also decide whether Israel at last opens itself to world markets and international investment.

Professor Giora Goldberg, a political scientist at Tel Aviv's Bar-Ilan university, summarises the challenge: "For the first time we Israelis are voting on a peace experiment taking place on the ground. We have a clear choice: to go forward and try to finish the job, with all its risks, or go back to the experience we had under [the last Likud government of Mr Yitzhak] Shamir, of stagnation, the *intifada* [Palestinian uprising] and tension between us and the rest of the world."

· OBSERVER ·

Mr Tortilla takes flight

■ Bill Franke, the man who piloted America West out of its recessionary nosedive, is determined to persist with his policy of not hiring experienced airline executives.

The former paper industry man, who regards pre-deregulation types as stamped with the mark of Cain, last week taxied out Richard Goodmanson and presented him to approving shareholders as his intended successor as the airline's president and chief executive.

How quickly the switch becomes official is a matter of guesswork. Goodmanson's hands-on transportation industry experience is limited mainly to trucking tortilla chips around the US, in his former role as operations chief at Frito-Lay.

But that is no impediment in the eyes of Franke, who has in three years replaced most of his top management with non-airline outsiders.

The delay is because the unfortunate chap is an Australian and thus lacks the American citizenship federal rulemakers consider vital for airline bigwigs. Though with 11 years' residence, the 48-year-old should take the conversion in his stride, on the road from Dallas to AW's home in Phoenix.

With that behind him, he will cast off his temporary title of executive vice-president and chief operating officer, and Franke will move up a peg or two and continue to rule the roost as chairman of both the airline and its newly-formed holding company.

Hitching a lift

■ Observer recently had a chance to chat to Jacques Calvet, the wily head of Peugeot-Citroën. He was being extremely diplomatic about South Korea, a touch unusual as he's normally a fiery defender of Europe's interests in the face of Asia's motor tigers, whom he argues have flourished behind protectionist barriers.

Yet on this occasion Calvet was uncharacteristically muted when it came to the Koreans.

Could that have been because Peugeot was negotiating to sell diesel engines to Hyundai Motor, Korea's biggest carmaker? Popping Peugeot diesels into Hyundai saloons would give the French company some leverage over the latter's costs: the French-made engines will have to be shipped half way round the world to Hyundai's Korean plant, only to find their way back to Europe again.

Europe is the world's biggest market for diesel-powered passenger cars, and France by far the biggest diesel market within it. Hyundai needs the engines to entice more Europeans behind its wheels. But it cannot justify building a new production line, as no self-respecting Korean driver would be seen dead in a diesel. Cunning Calvet.

Dastardly deeds

■ Appropriately enough perhaps, two competing reports on country competitiveness are released this week.

An extraordinary coincidence, say both sets of authors – the Geneva-based World Economic Forum and the International Institute for Management Development in Lausanne, collaborators until last year on the World Competitiveness Report.

Suspicious fingers will probably point to Stephane Garelli, the energetic and loquacious author of the IMD's World Competitiveness Yearbook. He got his publication out first, yesterday, three days ahead of the WEF's Global Competitiveness Report – but only by dint of putting his stuff on the Internet. The WEF sniffily notes that it will have advance printed copies for unconnected hacks. "Obviously they did this to surprise us," says WEF's Barbara Erskine.

WEF, best known for its annual Davos business forum, is not above a few low punches of its own. Erskine says the previous joint report, prepared by the IMD team, was "not on a par with the level of the competitiveness debate". WEF subsequently turned to the ubiquitous Jeffrey Sachs and his team at Harvard University to advise on a revamped product. "The country rankings are not the same", says Erskine.

Well, it wouldn't be competition if they were.

Double trouble

■ The Free Democrats, the pro-business party founded by George Vassiliou, the former president of Cyprus, as a vehicle for his political comeback, won just two seats in Sunday's parliamentary election – one for Vassiliou, and one for his energetic wife Androulla, a former legal adviser to Cyprus Popular Bank, an HSBC affiliate.

While her husband was trying (unsuccessfully) to stitch the island's Greek and Turkish bits back together in the early 1990s, Mrs Vassiliou ran a think tank on women's issues. She was swept in by voters in Nicosia, the capital; her husband, who lost the 1993 presidential election by only a few hundred votes, had a tougher time winning a seat in his home town of Limassol.

Personal service

■ From California, home of the politically correct. What do you call a ladies' man? A person person.

The Financial Times

100 years ago

The Rio Grande River

A company is now being formed for the purpose of acquiring the rights to dam the Rio Grande river and utilise the water for irrigating portions of Southern New Mexico and Texas. The prospectus states that many of the landowners are willing to give up half their land in order to secure the irrigation of the other half, which will have the effect of raising its value some £40 an acre. The landowners who desire to retain all their land will be supplied with perpetual water rights at £10 an acre.

50 years ago

U.S. Credit for France

Paris:- A last-minute hitch over what commodities France may buy with her U.S. credit is one of two factors which have caused delay in the signing of the loan agreement, it was reported here last night. The other delaying factor is the time needed to draft a detailed contract between the French Government and the Export-Import Bank. General agreement is understood to have been reached on a $650,000,000 credit from the Export-Import Bank and a $400,000,000 credit for purchase by France of surplus U.S. war stock.

FINANCIAL TIMES
Tuesday May 28 1996

Policy aims to make exports more competitive

Taipei lets currency slide in effort to revive growth

By Laura Tyson in Taipei

Taiwan's currency plunged through a six-year support level yesterday, signalling a new willingness by the government to use foreign exchange policy to make exports more competitive.

The New Taiwan dollar closed at T$27.641 to the US dollar against Saturday's T$27.486 finish, well below the six-year barrier of T$27.50, which Taiwan's Central Bank of China had previously defended.

Slowing GDP growth and sluggish exports over the last six months, combined with low inflation rates, appear to have convinced policymakers that stimulating the economy by boosting exports was worth the risk of pushing up prices.

Also, now that Mr Lee Teng-hui, the country's first democratically elected leader, has been sworn into office, capping nearly a decade of political reforms, the government appears confident enough to allow the currency to find its own footing.

The central bank, which has gradually been easing foreign exchange controls, hinted obliquely at such a move on March 23 when it announced quarter percentage point cuts in two key interest rates. It suggested the currency's value should be determined by market forces.

The interest rate cuts, which triggered a round of rate reductions at major banks, have combined with the recent strength of the US dollar to put increasing downward pressure on the currency.

Financial analysts expect it to slide further in coming sessions, possibly heading as low as T$28.00. Yesterday's turnover in Taipei was $549.5m, more than double the usual amount.

Held back in part by political worries, GDP growth was an annualised 4.86 per cent in the fourth quarter of 1995 and 5.31 per cent in the first three months of this year, compared with 6.54 per cent in the full year 1994.

Exports rose 20 per cent in 1995, but were hard hit by tensions across the Taiwan strait early this year and posted just 9.3 per cent growth in the first quarter.

The central bank, armed with the island's formidable foreign exchange reserves, had made clear since 1990 that it would vigorously defend the currency to ensure financial stability in the face of tension with China and during the island's transition to democracy.

This policy proved its effectiveness in the middle of last year and again in March of this year when the island suffered several waves of capital flight as relations with Beijing worsened and China launched military drills near the island.

Albanian opposition refuses to recognise poll result

By Kevin Done and Marianne Sullivan in Tirana

Albania was plunged into political turmoil yesterday as the ruling rightwing Democratic party claimed victory in Sunday's election, while opposition parties called for protests against alleged electoral fraud.

The Socialist party, reconstructed from the Communist party of the former Stalinist dictator Enver Hoxha, said it would not recognise the result.

It added that it would not take part in the next parliament, threatening to leave Albania without an effective opposition.

The Socialists, along with the smaller centrist Democratic Alliance, Social Democrats and several minor parties, said they would boycott the second round of voting. This is due next Sunday in constituencies where no candidate won an absolute majority in the first round.

Opposition party leaders said the election had taken place under widespread manipulation, intimidation and violence, and they called for fresh elections to be held "under fair and democratic conditions". The parties also called for protests today in Tirana, the capital.

Mr Neritan Ceka, chairman of the Democratic Alliance, demanded that elections should be supervised by the US, and attacked European states for providing "an alibi" for the ruling Democratic party.

International election observers were still returning to Tirana yesterday to piece together the events of Sunday's voting, but some reported significant irregularities.

One representative from the European parliament said he saw a woman "filling in ballot papers, as if she was on a production line in a factory".

Hampered by primitive communications from the many isolated mountain villages, official results are not expected until today.

But Democratic party officials claimed yesterday that the party had won between 60 and 65 per cent of the vote.

The Democratic party has ruled Albania since 1992 when it won a landslide victory to end nearly 50 years of one of the most repressive communist regimes in Europe. President Sali Berisha yesterday rejected opposition claims of malpractice and accused the "fanatics of the Red Front" of staging "a chain of provocations".

Mr Berisha said the second round of voting would go ahead as planned and the opposition would receive the seats indicated by the results of the election. In a euphoric address he said: "Between democracy and communism, Albanians chose democracy. Between the east and the west, they chose the west."

Deutsche Telekom in $536m deal for 49% Kazakh stake

By Sander Thoenes in Almaty and Michael Lindemann in London

The Kazakh government is to hand over 49 per cent of voting shares in Kazakhtelecom, the state telecommunications monopoly, to Deutsche Telekom in a DM825m ($536m) deal to repay debts and ensure investment in the telephone network of the central Asian state.

Under the deal, Deutsche Telekom will have management control for nine years, with an option on another six. The Kazakh government will keep 51 per cent of voting shares and employees will hold a 10 per cent non-voting stake, Mr Harry Shtoik, deputy prime minister, said.

"This allows for development of one of our most important sectors," Mr Shtoik said, adding that the Kazakh telecoms network required $2.5bn in investment and was not expected to make a profit for a decade.

Deutsche Telekom has pledged to lift the number of telephones among Kazakhstan's 17m people, from 2.1m to 4.5m in 10 years. It will invest in the profitable international lines and subsidised local lines, Mr Shtoik said.

Deutsche Telekom declined to comment on details of the deal, saying that "a proposal was being discussed".

The company will, however, need the approval of its non-executive supervisory board before an investment of this size.

The Kazakh government faces a monetary crisis, with $4.5bn in outstanding debts stifling production. Foreign investors have taken on debts before but this is the first time a debt-for-equity swap has made up most of the purchase price.

The deal is comparatively costly compared with the prices paid for other privatised enterprises in Kazakhstan. Deutsche Telekom will ensure payment of a DM460m debt to Kreditanstalt für Wiederaufbau, the German bank.

It will also pay a DM120m bonus, the only cash part of the deal, to the Kazakh government. Repayment of Kazakhtelecom's debts to the country will cost Deutsche Telekom DM75m and it has pledged to invest DM170m.

Kazakhtelecom has been struggling to find investors, partly because many of the more profitable telecommunications services – such as computer networks and cellular phone projects – have been sold off to seven joint ventures. Because of poor telephone connections, mobile telephone companies have attracted 50,000 subscribers in recent years, according to Mr Kazyken Bazylov, vice-president of Kazakhtelecom. Also, if Deutsche Telekom wants to raise tariffs it will need approval from the country's anti-monopoly committee.

Some analysts said Deutsche Telekom had been lukewarm about the deal and had originally demanded an 80 per cent stake, but was under pressure from the German government to agree.

The venture in Kazakhstan is the latest in a number of acquisitions for the company, Europe's largest telecoms operator which is due partially to be privatised in November. Last week it bought a stake in a Malaysian telecoms operator and is finalising an investment in Thailand. It is also involved in mobile phone ventures in Russia and Ukraine, but has balked at taking stakes in previously state-run monopolies in the former Soviet Union.

Kazakhs tighten tax, Page 3

New chip promises 'electronics revolution'

Continued from Page 1

conductor chips wired together on a printed circuit board. But when information passes from one chip to another it is slowed down and generates heat and electrical "noise" or interference.

Putting 125m transistors on a single chip means using fewer chips, making them faster and quieter while reducing power consumption. Mixing different types of electronic device on one chip will provide more flexibility and faster development times.

For consumers, it will mean lighter and more powerful digital telephones and portable computers with significantly longer battery lives. Similarly, there are some tasks such as image recognition which require vast amounts of computing power. Normally these systems are only found in expensive manufacturing robotics systems.

But with the advent of 125m transistors on a single chip picture phones like the Dick Tracy wrist computer, or computers that recognise speech could become consumer items.

THE LEX COLUMN

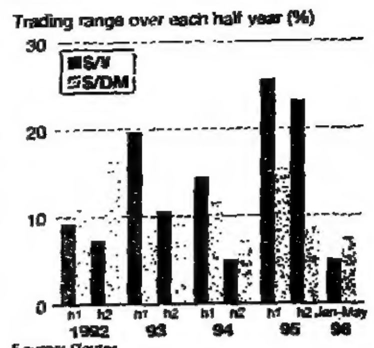
Currencies' eerie calm

Interestingly, it has been rather a dull year for currency trading so far. The current lack of volatility, like that in the second half of 1994, is unusual. The 5 per cent range between the dollar's high and low against the yen – and the 7.5 per cent range against the D-mark – are abnormally low.

The reason appears to be political. The US, German and Japanese governments are more or less happy with foreign exchange rates around their current level. Indeed, just about everyone who matters is happy to see a slightly stronger dollar. And so long as most of the world's developed economies are struggling to speed up economic growth, this state of affairs is likely to last. The Japanese and German authorities are content to see their currencies weaken because the last thing they want is their export competitiveness eroded. And the French, for example, like a strong dollar, because it helps support the French franc against the D-Mark.

But the status quo is unlikely to survive once these economies revive. The Bundesbank, for instance, is likely to rediscover its obsession with controlling inflation: that means higher interest rates and most probably a stronger currency. The likely impact on the foreign exchange market was illustrated by the recent upward blip in the yen on rumours that the Japanese authorities would soon be raising interest rates. Those rumours were soon discounted – the Japanese economy may have turned the corner but is hardly roaring ahead – but clearly it is only a question of time before the cycle turns. Against the D-Mark, the dollar may be supported by worries about European monetary union, but it will find it hard to buck a strong rebound in Japan.

Currency volatility



Source: Reuter

European takeovers

Takeover rules across Europe leave much to be desired. Examples of managements being able to block hostile takeovers and of unfair treatment of minority shareholders by bidders crop up regularly. Nevertheless, such deficiencies do not mean Europe needs harmonised takeover rules as the European Commission is now proposing. Takeover rules should surely be a classic application of the "subsidiarity" principle, which calls for issues to be left to national governments unless there is a clear case for a concerted European Union approach.

To be fair, the Commission's current proposals are looser than the detailed plans it originally drew up more than 10 years ago. It is now merely putting forward principles which national governments would have to flesh out into precise rules. Moreover, the principles themselves – covering such things as equal treatment of all shareholders – are eminently sensible. Still, not only is there little justification for imposing the principles from on high; doing so could have unpleasant side-effects.

The risks are most obvious in the UK, whose non-statutory Takeover Panel currently works fairly well. Bringing it into a statutory framework, however loose, could make it easier for participants in a bid battle to challenge the Panel's decisions in court. Since such a process could be long-winded, the whole bid could lapse. Indeed, participants might challenge the Panel with precisely that aim in mind. Rather than trying to enshrine its principles in law, the Commission should present them as best practice which national governments would be well advised to adopt.

UK property

The problem with the UK property sector is that while the supply of property shares is limitless, as demonstrated by last week's rights issues, demand for them is not. Property companies are rarely short of deals, just the funding for them. So as soon as share price discounts to net asset value vanish, rights issues follow. This was a feature of 1987 and 1993, although cash was also needed to rebuild balance sheets. Now 1996 looks set to produce enough paper to drown renewed interest in the sector.

Of course, funding the right investment programmes can be profitable. Burford's management, for example, has spent well – and despite facing three rights issues since 1993, the shares have outperformed the market by over 200 per cent. But they are a minority. And there are problems afoot. Rental growth remains elusive across the spectrum of commercial property. Land Securities last week revealed patches of growth, such as supermarkets and retail warehousing. But average valuations remain subdued. And while demand for top quality office and retail space in and around London has strengthened, there are signs supply is following suit. Following the collapse of the property market in the early 1990s, speculative development became a term of abuse. But as rents for quality space edge upwards, the speculative developers are starting to return.

With planning consents for new development at an all-time high, banks awash with cash, and companies able to get rights issues away, conditions are ripe for an acceleration in development. If so, the return of rental growth is likely to prove short-lived.

UK utilities

If the phony war over Southern Water turns into a bid battle, it will be a nonsense. Undervalued water companies are not in short supply. So if Southern Electric proves a determined rival – as it may, given the threat to its own business a Scottish Power bid would represent – the Scottish company can and should look elsewhere.

Still, whether it lands Southern Water, Scottish Power is right to be fishing for a water company. For a start, water stocks are under-priced. Contrast, for instance, Southern Water's capacity to sustain dividend growth well ahead of the market average with the 40 per cent yield premium at which the shares trade. Just as importantly, its balance sheet is absurdly strong, even by the standards of the water sector. There is plentiful scope for gearing it up.

But Scottish Power is not just bargain-spotting. It is playing a canny strategic game as well. While the English generators have become stuck in a regulatory morass, Scottish Power has already added a regional electricity company, Manweb, to its strong Scottish franchise. Adding a water company in a different area might mean fewer potential cost savings – but Scottish Power would get large numbers of new customers, to whom it could try to sell gas and electricity as well as water.

This game is all about positioning for the opening of Britain's domestic gas and electricity markets to competition in 1998. If Scottish Power could pull off a sensibly-priced water deal – Southern Water or not – it will have quietly ended up better-placed than any to benefit.

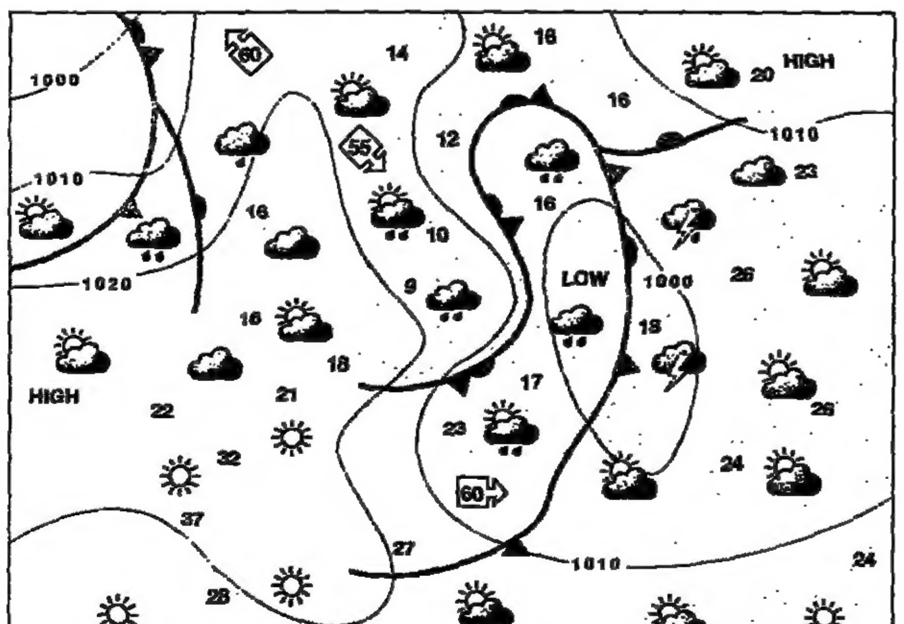
FT WEATHER GUIDE

Europe today

Much of eastern Europe will be very wet. A frontal zone, marking the boundary between warm air to the east and cooler air to the west, will stretch from Poland into the Balkan states. There will be heavy rain along this zone and thunder storms are possible. Turkey and southern Greece will remain sunny and dry. Western Europe will see temporary improvement as a ridge of high pressure moves through. The Low Countries and France will have sunny periods and will remain dry. Germany and the Alps will have light showers. Southern Scandinavia will be changeable with sunny periods and light showers. The British Isles will have rain.

Five-day forecast

The Mediterranean will be rather settled with summer-like temperatures in Italy and Spain. A strong westerly flow will move several frontal systems and low pressure areas across the British Isles, the North Sea, Denmark and into south-western Scandinavia. Central Europe will see a slight improvement with a warming trend.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

	Maximum		Beijing	sun	31	Caracas	fair	31	Faro	sun	28	Madrid	sun	32	Rangoon	shower	29
	Celsius		Belfast	rain	15	Cardiff	cloudy	16	Frankfurt	fair	14	Majorca	sun	24	Reykjavik	rain	10
Abu Dhabi	sun	41	Belgrade	rain	17	Casablanca	sun	26	Geneva	fair	18	Malta	fair	24	Rio	fair	25
Accra	thund	30	Berlin	shower	12	Chicago	shower	16	Gibraltar	sun	25	Manchester	rain	16	Rome	fair	23
Algiers	fair	23	Bermuda	fair	25	Cologne	fair	13	Glasgow	rain	14	Manila	thund	35	S. Frsco	fair	19
Amsterdam	fair	13	Bogota	shower	18	Dakar	fair	28	Hamburg	shower	10	Melbourne	shower	16	Seoul	fair	26
Athens	fair	26	Bombay	sun	34	Dallas	sun	34	Helsinki	shower	16	Mexico City	shower	26	Singapore	thund	32
Atlanta	fair	30	Brussels	fair	14	Delhi	sun	41	Hong Kong	rain	28	Miami	fair	32	Stockholm	shower	14
B. Aires	sun	20	Budapest	shower	18	Dubai	sun	39	Honolulu	fair	31	Milan	sun	24	Strasbourg	fair	15
B.ham	cloudy	17	C.hagen	fair	13	Dublin	rain	16	Istanbul	fair	26	Montreal	cloudy	18	Sydney	fair	19
Bangkok	thund	36	Cairo	sun	31	Dubrovnik	rain	21	Jakarta	shower	32	Moscow	fair	20	Tangier	sun	29
Barcelona	sun	22	Cape Town	fair	23	Edinburgh	rain	15	Jersey	cloudy	13	Munich	shower	9	Tel Aviv	sun	27
									Karachi	fair	37	Nairobi	fair	24	Tokyo	fair	25
									Kuwait	sun	42	Naples	shower	22	Toronto	fair	17
									L. Angeles	fair	21	Nassau	thund	31	Vancouver	rain	16
									Las Palmas	fair	25	New York	rain	15	Venice	fair	22
									Lima	cloudy	18	Nice	fair	24	Vienna	shower	14
									Lisbon	sun	32	Nicosia	fair	32	Warsaw	shower	16
									London	fair	17	Oslo	shower	14	Washington	rain	17
									Lux.bourg	fair	12	Paris	fair	19	Wellington	fair	15
									Lyon	fair	18	Perth	sun	25	Winnipeg	sun	24
									Madeira	sun	24	Prague	shower	10	Zurich	shower	12